William Blair

1Q 2019

Fund Manager Commentary
William Blair Emerging Markets Growth Fund

Fund Performance & Positioning

The William Blair Emerging Markets Growth Fund (Class N shares) outperformed its benchmark, the MSCI Emerging Markets IMI Index (net), during the first quarter.

Outperformance versus the Index was primarily driven by positive stock selection across most sectors. The Financials, Consumer Discretionary and Communication Services sectors were the largest sources of relative return. Within Financials, China Merchants Bank aided relative results. The bank delivered solid operating 4Q2018 results supported by healthy loan growth and net interest margin expansion. In addition, the improved macro backdrop, increased liquidity and accelerating retail momentum lifted investor sentiment and stock performance. Consumer Discretionary performance was bolstered by both the Fund overweighting and strong stock selection, especially within China. Chinese internet giant Alibaba Group Holding and hotel operator Huazhu Group added the most. Following a de-rating in the second half of 2018, Alibaba's share price strengthened in the first quarter amid accelerating fundamental trends (improved margins and strong revenue growth), an attractive valuation and improved China backdrop. Structural growth of e-commerce in China should enable mid-term revenue growth exceeding 35%, underpinned by consumption growth, deepening internet and mobile data penetration, and the favorable backdrop for online versus offline adoption.

While we acknowledge competitors may leverage mobile positioning to chip away at Alibaba's dominance, we believe that network effects and the strength of its ecosystem underpinned by its logistics and payment solutions should reinforce its competitive advantage. Huazhu Group's share price rebounded sharply on the back of robust operating performance. Tencent Music Entertainment, the largest Chinese online music entertainment platform and a recent IPO within Communication Services was an additional source of outperformance. The company has over 800 million monthly active users and 90% market share by revenue in an industry that it is expected to grow by over fivefold through 2023. The attractive user growth and under-monetized opportunity underpins the emerging growth, high return investment thesis.

Partially offsetting these effects were weak results in the Information Technology, Real Estate and Energy sectors. Within Information Technology, Korean lithium-ion battery manufacturer Samsung SDI detracted from relative returns as the stock fell on softer operating momentum, coupled with concerns over China subsidies cuts. Real Estate and Energy underperformance was mainly driven by unowned names especially Chinese Real Estate and Indian Energy companies. From a geographic perspective, India and Brazil detracted from relative performance. Hindustan Unilever, the Indian FMCG company, was a notable drag despite delivering continued strong

Top 10 Holdings[1] as of 3/31/19

Company Name	*% of Fund*
Alibaba Group Holding Limited	6.3%
Taiwan Semiconductor Manufacturing Company, Ltd.	4.9%
Tencent Holdings Limited	4.9%
Ping An Insurance (Group) Company of China, Ltd.	3.6%
China Merchants Bank Co., Ltd.	2.8%
HDFC Bank Limited	2.7%
Naspers Limited	2.2%
Housing Development Finance Corporation Limited	2.0%
Samsung Electronics Co., Ltd.	2.0%
B3 SA - Brasil Bolsa Balcao	1.9%
Total Top 10	**33.3%**

[1] Listed holdings are presented to illustrate examples of the securities that the Fund has bought and do not represent all of the Fund's holdings or future investments. Information about the Fund's holdings should not be considered investment advice. There is no guarantee that the Fund will continue to hold any one particular security or stay invested in any one particular sector. Holdings are subject to change at any time and are as of the date shown above. Top ten holdings are shown as a percentage of total net assets.

results driven by double digit volume growth and margin expansion. The stock weakened amid expectations of a slight deceleration in near term growth and high valuation.

During the period, Consumer Discretionary exposure was augmented to an increased overweighting through new purchases and addition to existing holdings. New Oriental Education & Technology, the Chinese private education company, and Yum China Holdings, the fast food restaurant chain, were bought during the quarter. We believe New Oriental is well positioned to benefit from resilient tutoring demand in China and deliver sustainably strong revenue and earnings growth, driven by market share gains and margin expansion. Yum China has in our view a structurally advantaged business model underpinned by its strong brands, industry-leading scale and infrastructure and favorable exposure to the secularly growing and highly fragmented Chinese fast food industry. Industrials exposure was also increased to an overweight position during the period, primarily through new purchases of domestic Chinese companies Jiangsu Hengli Hydraulic (leading supplier of hydraulic components to excavator manufacturers), Centre Testing International (leading testing, inspection and certification company in a highly fragmented market) and Zhejiang Dingli Machinery (largest manufacturer of aerial working platforms in China by sales volume).

These increases were offset primarily by reductions to Financials and Information Technology. Within Financials, Sanlam, the South African insurer, was sold given the difficult operating environment and subdued growth outlook in South Africa coupled with increased election and sovereign credit risks. The Information Technology weighting was reduced through the liquidation of Korean Samsung SDI and SK Hynix. The latter was sold as weak end demand and elevated inventories continue to pressure DRAM prices. From a geographic perspective, notable adjustments were an increase to China, offset by decreases to India and South Africa.

Market Review & Outlook

After a difficult end to 2018, equity markets around the world rallied to start the year despite signals of moderating global growth. The MSCI ACWI Investable Market Index (IMI) gained 12.29% in USD terms, the largest quarterly gain since 2010, as investor sentiment was bolstered by a more dovish tone out of major central banks and improved trade talks between the U.S. and China. Developed market equities outpaced emerging markets primarily driven by strength in the U.S. and Canada.

U.S. equities rallied in January (+8.60%) and continued to post strong returns throughout the quarter (+13.99%). Growth in the U.S. remained solid but started to decelerate off of last year's previous highs. The Federal Reserve's acknowledgment of slower economic growth and dovish stance on interest rates helped ease investor sentiment and boosted returns across sectors.

European equities also advanced despite signs of significant deceleration in manufacturing growth. Specifically, purchasing manager surveys continued to point to deceleration in the pace of industrial orders growth and subsequent industrial production growth in the Euro Area. Brexit woes continued to weigh on the economic conditions within the United Kingdom but the market felt some relief following the announcement that the European Union had agreed to delay the Brexit process past the March 29 deadline. The MSCI Europe ex-U.K. IMI advanced 10.50% and the MSCI U.K. IMI advanced 12.32% in USD terms during the quarter.

Within emerging markets, the story for the quarter was the rebound in equity performance across China's mainland securities (A-shares), which advanced 33.02% for the quarter, erasing the 32.99% loss incurred in 2018 (as measured by the MSCI China A Onshore Index in USD terms). The A-share market rallied following news of several fiscal and monetary stimulus measures aimed to boost the economy. Additionally, A-shares were bolstered by news that MSCI would quadruple the weighting of A-shares in global benchmarks by increasing the inclusion factor from 5% to 20%. Outside of China, emerging market equities broadly lagged the global benchmark. Rising geopolitical tensions between India and Pakistan weighed on the Indian Rupee and equity market. The MSCI India IMI modestly advanced +6.65% in USD terms for the quarter.

From a global sector perspective (as measured by the MSCI ACWI IMI), Information Technology significantly led the market, driven by strength within small cap software and IT services. Other cyclical sectors such as Real Estate, which sold off sharply in late 2018, rallied during the first quarter of the year. Conversely, Financials lagged primarily due to weakness in Japan.

As we begin the second quarter of 2019, domestic demand in key jurisdictions is showing signs of stabilization and synchronized fiscal expansion. Existing home sales rebounded strongly in March in the U.S., and private consumption growth in the Euro Area is tracking a nearly 2% annualized pace. At the same time, purchasing manager surveys continue to point to deceleration in the pace of industrial orders growth and subsequent industrial production growth.

We regard the deceleration in economic activity in the U.S. to be more about the base effect rather than the end of the current economic cycle. As the impact of corporate tax cuts unveiled at the beginning of 2018 dissipates, the U.S. economy is returning to a growth rate of approximately 2%. The divergence between the U.S. and other economies is normalizing in line with our expectations. If the rest of the world continues to grow at the current pace, the growth wedge and by extension the substantial outperformance of U.S. markets vis-à-vis the rest of the world is likely to moderate from here.

Growth is being supported by fiscal stimulus measures globally. Starting in Europe, the Euro Area is set to experience the first fiscal expansion in a decade. In Germany, Finance Minister Olaf Scholz has set aside approximately €150bn for much needed investment in infrastructure, education, housing and digital technology over the next four years. More immediately, the fiscal stimulus slated for this year will be largely for consumer spending, as higher unemployment and pension benefits, together with a tax cut to lower income earners, is expected to boost purchasing power by 0.5% of GDP. The abolition of the solidarity surcharge, which accounts for 5.5% additional income tax, is set to be reduced beginning this year. Government construction orders soared 12.2% in Q4 2018 from the prior quarter, and will likely advance further in 2019.

In France, President Emmanuel Macron responded to the “yellow vests” movement by announcing measures to boost the purchasing power of households by about 0.4% of GDP. These include cancellation of the increase in social charges on pensions, an increase in the activity bonus for employees paid the minimum wage, and a tax exemption on exceptional year-end bonuses and income from overtime.

In China, the government continues to roll out tax cuts following its 2-year effort to streamline and digitize tax collection. In Q1 2019, the government announced a CNY2 trn tax cut on business activity. Effective April 1, VAT in the top general category will be reduced from 16% to 13%, on top of reductions in the employer contribution to social security from 20% to 16%. Together with household income tax reform implemented last year, these measures will continue to support domestic activity. At the same time, the scope for further adjustments on the fiscal side is not exhausted, as the State Administration of Taxation continues to report an increase in aggregate tax collections in excess of expectations.

The U.S. continues to maintain a highly expansionary fiscal policy stance. Although major corporate tax cuts boosted domestic activity in H1 2018, the U.S. budget deficit is expected to be even larger this year, at nearly 4.5% of GDP, despite the domestic economy expanding at a 2%+ annual pace.

Within portfolios, we maintain our focus on companies with sustainable earnings trends and recurring-revenue business models that add growth visibility at this later stage of the economic cycle. Recent positioning adjustments within our ACWI-oriented funds generally reflect our incrementally less cautious outlook on China. Within China, we continue to emphasize domestically-oriented consumer, healthcare and technology companies that we believe are well positioned to benefit from the economy’s ongoing transition to a consumption and services-driven growth model.

INVESTMENT PERFORMANCE % (as of 03/31/19)

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 06/06/05)	11.82	11.82	-12.44	9.31	3.11	10.01
Class N (SI: 06/06/05)	11.76	11.76	-12.66	9.05	2.86	9.72
MSCI Emerging Markets IMI Index (net)	9.67	9.67	-7.97	10.08	3.45	9.12

EXPENSE RATIOS (%)

	Gross Expense
Class I	1.27
Class N	1.50

Expenses shown are as of the most recent prospectus.

Performance cited represents past performance. Past performance does not guarantee future results and current performance may be lower or higher than the data quoted. Returns shown assume reinvestment of dividends and capital gains. Investment returns and principal will fluctuate with market and economic conditions and you may have a gain or loss when you sell shares. For the most current month-end performance information, please call +1 800 742 7272, or visit our Web site at www.williamblairfunds.com. Class N shares are available to the general public without a sales load. Class I shares are available only to investors who meet certain eligibility requirements.

DISCLOSURE

The Fund involves a high level of risk and may not be appropriate for everyone. You should only consider it for the aggressive portion of your portfolio. The Fund's returns will vary, and you could lose money by investing in the Fund. The Fund holds equities which may decline in value due to both real and perceived general market, economic, and industry conditions. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. The securities of emerging market companies may be subject to greater volatility and less liquidity than companies in more developed markets. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Currency rates may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. The Fund is expected to incur operating expenses that are higher than those of mutual funds investing exclusively in U.S. equity securities due to the higher custodial fees associated with foreign securities investments.

The Morgan Stanley Capital International (MSCI) Emerging Markets IMI Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. This series approximates the minimum possible dividend reinvestment. The Index is unmanaged, does not incur fees or expenses, and cannot be invested in directly.

This content is for informational and educational purposes only and not intended as investment advice or a recommendation to buy or sell any security. Investment advice and recommendations can be provided only after careful consideration of an investor's objectives, guidelines, and restrictions.

Please carefully consider the Fund's investment objectives, risks, charges, and expenses before investing. This and other information is contained in the Fund's prospectus and summary prospectus, which you may obtain by calling +1 800 742 7272. Read the prospectus and summary prospectus carefully before investing. Investing includes the risk of loss.

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