William Blair

Third Quarter 2020

William Blair International Leaders Fund
Fund Manager Commentary

Market Review

Global equities continued to surge in the third quarter driven by strong performance across most regions (the MSCI ACWI IMI advanced 8.11%). Signs of continuing economic recovery coupled with the prospect of an accelerated timeframe for the COVID-19 vaccine bolstered investor sentiment.

US equities continued to lead developed markets, posting another strong return for the quarter (+9.10%). Investors were encouraged by better than expected economic data, suggesting that the economic recovery was gaining strength. Optimism surrounding an additional fiscal stimulus package ahead of the U.S. presidential election also supported sentiment, although no deal had been reached as of quarter end. Commentary out of the Federal Reserve remained dovish with the announcement that the central bank would maintain low interest rates for years, targeting an "average of 2% inflation".

Among non-US developed markets, Japan outperformed during the quarter, advancing +7.37% in USD terms despite the abrupt resignation of long serving Prime Minister Shinzo Abe in late August over long-standing health issues. Financial markets appeared to be reassured by the election of Abe's long serving key deputy, Yoshihide Suga, as Japan's next premier. As Chief Cabinet Secretary, Suga was a key architect of the popular economic reform strategy known as Abenomics, and there is hope that he will push forward with structural reforms including administrative and digital reforms.

European equities advanced +5.29% for the quarter in USD terms, mostly attributable to positive currency effects as the Euro strengthened. Local market returns were weighed down by concerns about a resurgence in coronavirus infections and restrictions derailing the EU's fragile economic recovery. The Eurozone service industry PMI declined from 50.5 in August to 47.6 in September—significantly worse than economists' forecasts, with particular weakness in France.

Emerging markets modestly outpaced developed markets driven by strength in India (+15.87%), Taiwan (+14.75%), Korea (+14.56%), and China (+12.44%). Conversely, Brazil (-2.63%) and Chile (-4.27%) underperformed primarily due to currency headwinds (-0.05% and -8.10% in local terms respectively).

From a global sector perspective, investors' appetite for riskier assets continue to drive performance differences across sectors. Growth sectors such as Consumer Discretionary (+17.61%) and Information Technology outperformed (12.29%), while defensive areas of the market underperformed on a relative basis due to weakness in Energy (-12.42%) and Financials (+1.31%).

Top 10 Holdings[1] as of 9/30/20

Company Name	*% of Fund*
Alibaba Group Holding Limited	4.1%
Tencent Holdings Limited	3.3%
Taiwan Semiconductor Manufacturing Company Limited	2.8%
LVMH Moet Hennessy-Louis Vuitton SE	2.7%
Keyence Corporation	2.7%
Hexagon AB	2.5%
Lonza Group AG	2.4%
Adyen N.V.	2.4%
Infineon Technologies Ag	2.3%
TAL Education Group	2.2%
Total Top 10	**27.4%**

Fund Performance

The William Blair International Leaders Fund (Class N shares) outperformed its benchmark, the MSCI All Country World ex-U.S. IMI Index (net), during the third quarter. Outperformance versus the Index was primarily driven by positive stock selection across most sectors. The Energy, Industrials and Health Care sectors were the most significant contributors to relative return. Within Energy, Reliance Industries aided relative returns as the company continued to make progress on its corporate transition, including a sale of 33% of its digital services business to investors including Facebook and Google. Reliance is an Indian conglomerate with diverse businesses in energy, telecom, and retail. Its transformation from an asset and capex heavy cyclical energy business to more diversified, end-consumer business with a large and expanding total addressable market, is underappreciated. We believe the market underestimates the monetization potential at Jio, its telecom and digital services business with strong ecosystem benefits as a dominant provider of connectivity, content and commerce.

Kingspan Group, a leading building materials company within Industrials was an additional source of outperformance.

[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.

Kingspan has developed a differentiated technology that should continue to gain market share globally given the strong value proposition it offers customers. The primary advantage of its insulation products is energy efficiency, improved durability, reduced maintenance costs, and faster construction times. These “green” products also stand to benefit from existing and future legislation from nations looking to reduce their carbon footprint. Recent results highlighted its resiliency in the economic downturn, with leading edge insulation products gaining incremental traction in the market.

Within the Health Care sector, Lonza Group bolstered relative performance. Lonza is a leader in custom manufacturing of biopharmaceuticals and specialty ingredients. Business trends remain strong, particularly in its pharma biotech segment amid the COVID-19 pandemic. Lonza offers highly visible growth, and given the strong market demand for outsourced biopharma production and related services, we remain confident it can deliver on growth in the future.

Partially offsetting these effects was an underweight allocation to the Materials sector, coupled with below average stock selection within the Consumer Staples sector. Within Consumer Staples, Shiseido hindered relative results. Shiseido is the largest cosmetics company in Japan and fifth largest in the world. New management has reformed the organizational structure to place more responsibility in the hands of local managers, improved strategy execution, accelerated product development, and concentrated Shiseido's investment on prestige brands. This strategy started to bear fruit in 2017 as Shiseido's operating momentum improved, leading the company to outpace revenues and earnings estimates. More recently, weaker than expected results in Japan and the Americas, along with heavy investments in China, travel retail, and digital have pressured profits, leading us to exit the position during the quarter.

Positioning

During the period, Financials exposure was reduced through the liquidation of China Merchants Bank. Conversely, Health Care exposure was increased during the period through the purchases of Sartorius Stedim Biotech and Fisher & Paykel Healthcare. Sartorius Stedim is a global leader within the fast-growing bioprocessing market. The company manufactures and commercializes single-use equipment and consumables for the production of biologics. The products aid customers to manufacture biological drugs in a more efficient, timely, and economical manner.

Fisher & Paykel has a leadership position in respiratory assistance in both the hospital and home care settings. We expect strong revenue growth driven by increasing market penetration in new applications, margin expansion due to improved product mix and production efficiencies, and new product launches. Exposure to Industrials also increased as a result of the purchases of Nihon M&A Center, Nibe and TOMRA Systems. Nihon M&A Center is a high-quality Japanese growth company that provides advisory services to small and medium sized businesses facing succession-oriented challenges, which is common given Japan’s aging demographics. Nibe is a leader in heating technologies, with quality brands and an experienced management team.

TOMRA designs, sells and services reverse vending and sorting machines for food, recycling and mining with a focus in high tech solutions.

From a geographic perspective, notable adjustments were increases to Developed Europe and Emerging Asia, offset by decreases to the U.K. The portfolio's weighting in Emerging Markets approximated 22% at the end of the period, up from 20% at the beginning of the period.

Outlook

The strength of the market since the depths of the initial pandemic outbreak has confounded many. We argued early in the second quarter that because the nature of this down cycle was unique in that it was a government-imposed economic lockdown, the ultimate re-opening would lead to a sequential acceleration of economic growth off the bottom that would be quite strong. Businesses and institutions have been resuming, albeit unevenly, and central bank support continues to be accommodative to liquidity. The market has responded favorably to these factors.

So where to from here?

The backdrop remains highly uncertain, and the risks seem abundant:

- Uneven re-openings, both throughout the world and within the United States
- Re-acceleration of outbreaks
- COVID treatment and vaccination still not approved
- US stimulus package political debate
- And of course, the US Presidential election

While all of the above are material risks, we believe the overwhelming influence upon market performance will be the continued pace of economic recovery surprising to the upside.

The demand for consumer goods has proven to be expanding, and the supply side has not been able to close the gap. This should lead to continued strength in industrial activity, even in the absence of an expansion of COVID treatments or vaccines.

For the consumption side of the economy, which is still lagging dramatically behind previous levels, we point to an acceleration of testing solutions as a very likely means to identifying, isolating and controlling the spread of the disease such that we can continue to see a gradual normalization of activities.

The market’s concern about these assumptions creates a healthy backdrop for our investments. In fact, the uncertainty of the recovery is likely to act as a buffer to the market overall as investors continue to climb a wall of worry. This combined with a very accommodative monetary policy backdrop, where Fed Chairman Powell has vowed to allow inflation to move above historic target levels before taking any tightening measures, results in a constructive backdrop for risk assets like growth equities.

Market Leadership and Style

This stock market recovery has been unique in that the leadership has been driven by the same types of companies that have led the market for several years: highly innovative "digital winners", those with high and persistent investment for future growth, and companies that have been able to scale at an unprecedented pace. This has fueled the performance of "Growth versus Value" and the ensuing debate around future equity investing style performance.

While these market leaders (Growth stocks) may have high current multiples (i.e., not equating to Value classification), their earnings power has proven to be undervalued. The market is still trying to reconcile the digital transformation of business models and the resulting scalability at higher than expected profit levels. Or, put differently, the durability of that growth and profit profile is underappreciated. The style performance differential therefore reflects a realization that the corporate performance gap is widening.

Thus we think the performance of Growth – especially in the low-growth environment that we have been experiencing – is logical. The following trends have favored Growth over Value:

1. Superior & consistently high profitability for Growth. R&D-driven innovation has been a key driver – and is likely to persist.
2. Higher future investment for Growth, driven by scarcity of growth – we don't see this changing in the near term.
3. Higher cost of debt and higher leverage for Value have favored Growth over Value, driven by low interest rates. Lower interest rates imply a lower risk premium for Value.

We will have much more to say on this topic in the coming months but suffice it to say we do not expect these growth tailwinds to subside anytime soon.

That being said, as is the case in most market recoveries, if we do experience the continued economic recovery that we expect in 2021, there will likely be periods where that broadening of growth will lead to a temporary transition or mean reversion favoring lower quality, lower growth equities. These will likely represent attractive buying opportunities for us.

Growth for the 2020s

During the summer we undertook a comprehensive exercise to predict important drivers of end market, industry and corporate profit growth over the next decade. As growth investors we are constantly assessing the future and incorporating our perspectives into our investment process. Forecasting and understanding major innovation developments and disruption trends is a key part of our investment process.

We looked back to our 2010 outlook to see what has transpired—both much more or much less than we had expected—and we learned one important lesson: forecasting is hard! Smartphones, social media, department stores, gaming and digital payments all had vastly different growth experiences than what was commonly expected in 2010.

But forecasting is necessary to create a framework for understanding the world and predicting the future in a highly systematic and iterative way in order to decrease the variability around predicted outcomes and hopefully improve forecast accuracy, and act upon them sooner and with greater conviction.

Perhaps because 2020 signifies the beginning of a new decade, or because we were working in this unusual setting, we undertook this exercise with more vigor and intensity than normal. The exercise was extremely fun, engaging and stimulating, and the results were interesting.

We believe three key themes will dominate the growth landscape over the next decade: digitization of everything; the continued sophistication of China Inc., and the convergence of technology across traditional industry lines.

I will leave it there for now, so as to not spoil all the details behind our research. You will be hearing much more from us in the coming weeks and months on this topic.

Investment Performance (%) Periods Ending 9/30/20	Quarter	YTD	1 Yr	Annualized 3 Yr	5 Yr	Since Inception[1]
William Blair International Leaders Fund (Class I)	12.67	11.36	23.22	10.56	12.93	10.53
William Blair International Leaders Fund (Class N)	12.61	11.17	22.90	10.27	12.64	10.26
MSCI AC World ex-US IMI (net)	6.80	-5.21	3.51	1.13	6.31	5,24

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.

[1]Class I and Class N inception date: 8/16/2012.

Expense Ratios (%)	Gross Expense	Net Expense
Class I	0.99	0.90
Class N	1.30	1.15

Expenses shown are as of the most recent prospectus. The Fund's Adviser has contractually agreed to waive fees and/or reimburse expenses to limit fund operating expenses until 4/30/21.

IMPORTANT DISCLOSURES

The Fund's returns will vary, and you could lose money by investing in the Fund. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. Because the Fund may focus its investments in a limited number of securities, its performance may be more volatile than a fund that invests in a greater number of securities. International investing involves special risk considerations, including currency fluctuations, lower liquidity, and economic and political risk. Investing in emerging markets can increase these risks, including higher volatility and lower liquidity. Investing in smaller and medium capitalization companies involves special risks, including higher volatility and lower liquidity. Small and mid-cap stocks are also more sensitive to purchase/sale transactions and changes in the issuer's financial condition. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. Diversification does not ensure against loss.

The MSCI All Country World ex-U.S. IMI Index (net) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the United States. 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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