William Blair

Second Quarter 2021

William Blair International Leaders Fund
Fund Manager Commentary

Market Review

Global equities continued to advance in the second quarter (the MSCI ACWI IMI gained +7.18% in the second quarter and 12.68% year-to-date in USD terms) amid further success of vaccination rollouts and a healthy rebound in economic activity, especially in developed markets. The sharp style rotation in the first quarter which favored value areas subsided in the second quarter with growth stocks outperforming. From a global sector perspective, Information Technology outperformed (+10.22% for the quarter and +12.39% year-to-date) while Utilities significantly underperformed (-0.09% for the quarter and +0.86% year-to-date). Energy also continued to rally (+10.08% for the quarter and +30.51% year-to-date) as rising demand drove stronger crude oil prices.

US equities advanced (+8.36% for the quarter and +15.05% year-to-date) as investors welcomed news of additional federal spending to revive the economy. In addition to the $1.9 trillion Covid relief plan and $2.3 trillion infrastructure plan introduced in the first quarter, the Biden administration also announced a $1.8 trillion American Families Plan emphasizing strong support for national childcare to ensure an equitable recovery from the pandemic, especially for female workers and mothers. Significant federal spending drove concerns over rising inflation. In May, headline inflation rose to 5.0% year on year, above expectations.

European equities kept pace with the benchmark (+7.26% for the quarter and +11.81% year-to-date) as several European countries gradually relaxed restrictions on travel and business activity. Economic data was also supportive, specifically the Eurozone manufacturing purchasing manager's index (PMI) which rose to a record high level (63.4) in June.

Strength within Latin America (+15.56% for the quarter and +9.64% year-to-date) was primarily driven by Brazil (+23.60% for the quarter and +11.89% year-to-date) bolstered by stronger commodity prices and currency tailwinds. China underperformed on a relative basis (+2.35% for the quarter and +2.36% year-to-date) amid concerns over tightening liquidity and increased regulatory oversight on large cap technology companies.

Fund Performance

Outperformance by the William Blair International Leaders Fund (Class N shares) versus its benchmark, the MSCI All Country World ex-U.S. IMI Index (net), during the second quarter was primarily driven by positive stock selection across most sectors. The Industrials and Health Care sectors were the most significant sources of relative return. Within the Industrials sector, Ashtead Group and Nibe boosted relative results.

Top 10 Holdings[1] as of 6/30/2021

Company	*% of Fund*
LVMH Moet Hennessy-Louis Vuitton SE	3.7
Airbus SE	3.0
Taiwan Semiconductor Mfg. Co. Ltd.	2.7
Straumann Holding AG	2.7
ASML Holding N.V.	2.4
Tencent Holdings Limited	2.3
Safran	2.3
Ashtead Group PLC	2.3
Alibaba Group Hldg. Ltd.	2.3
Lonza Group AG	2.3
Total Top 10	**26.0**

Ashtead is a rental company offering a broad range of construction and industrial equipment from general tools to specialty equipment. The company operates under the Sunbelt brand in the US and Canada and A-Plant brand in the UK. The rental business is simple with the rental provider offering customers homogenous products. While simplistic, Ashtead has the key benefit of scale in a largely fragmented market. The benefits of scale are significant with Ashtead buying equipment 20% cheaper than the competition, a large and well invested fleet to meet customer needs, and a wide-reaching and growing distribution network ensuring equipment is closer to the customer. These advantages have driven growth in cash flow, which in turn, has driven further investment that has resulted in share gains and greater scale.

Nibe is the market leader in heat pumps. The company's products are high quality, typically ranking at the top of independent consumer surveys. Management is long tenured, with the CEO having been with Nibe since 1988. The management team has a track record of both organic expansions and acquisitions, having grown sales over the past 20 years at a high teens annual rate, while improving profitability. Over this time, Nibe has transformed from a locally dominant player to an international leader across geographies and products.

[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.

Straumann, the global market leader in esthetic dentistry within Health Care was an additional source of outperformance. The company develops, manufactures, and supplies dental implants, instruments, biomaterials, CADCAM prosthetics, digital equipment, software, and clear aligners for applications in replacement, restorative, and orthodontic dentistry. Straumann is more than just a products company. As a total solution provider, it offers training, support, and a wide range of services to dental practitioners, clinics, and laboratories all over the world.

Partially offsetting these effects was negative stock selection within the Consumer Discretionary and Utilities sectors. Within Consumer Discretionary, TAL Education hampered relative returns. TAL Education is a leading tutoring services provider in China with a strong brand and significant growth opportunities. The stock declined amid regulatory headwinds as the government seeks to enhance standards of after school education and tutoring and reduce the tutoring burden for children.

Within the Utilities sector, Orsted was an additional source of underperformance. Orsted is Denmark's largest utility and the world's leading developer of offshore wind farms. Recent performance has been weak after a strong run-up into year-end. While a one-off warranty provision on a cable protection system issue at some offshore windfarms hampered recent results, we believe the company is well positioned to win future wind projects at attractive returns given its leadership position and healthy balance sheet.

Positioning

During the quarter, Health Care exposure was increased through the purchases of Wuxi Biologics and ICON. Wuxi Biologics is a contract development and manufacturing organization (CDMO) that offers a full range of research and manufacturing services for biologic drugs. The services are designed to help clients improve R&D efficiency, shorten development timelines and lower costs. Importantly, Wuxi is the only company offering comprehensive CDMO services for biologics in China. As a result, Wuxi is the domestic market leader with approximately 50% market share. Supporting Wuxi's growth profile is strong demand for biologics outsourcing services worldwide. We believe Wuxi's strong execution and favorable market dynamics will generate strong earnings growth for the foreseeable future.

Icon is a leading global clinical research organization (CRO), providing outsourced clinical trial, central lab, and real-world evidence services for biopharma customers. The company has successfully expanded both organically and via tuck-in M&A since its founding in 1990. Both Icon and its peers benefit from robust demand trends: a strong biotech funding environment, a growing pipeline, and healthy, growing R&D spend. Currently the sixth largest player in the clinical CRO market, Icon's proposed acquisition of PRA Health will catapult the company to the number 2 position in the market. We believe that Icon's historical focus on large pharma and its site network relationships, paired with PRA's larger exposure to small and midsized biopharma, its data capabilities, and mobile health/decentralized trial tools should allow the company to outgrow the market for at least the next several years.

From a geographic perspective, notable adjustments were increases to Developed Europe, offset by decreases to Emerging Asia. The portfolio's weighting in Emerging Markets approximated 18% at the end of the period, down modestly from 19% at the beginning of the period.

Outlook

The market is experiencing a tug of war between the impressive acceleration of economic growth due to global re-openings, and fears of a resurgence of COVID virus case counts. We believe economic growth will win out. While concerning, the positive view is that the vaccines are working, and the delta variant is proving not as harmful.

As for recent economic activity, it has been more of the same, with both consumption and production activity strong – in some cases above 2019 levels. While we expect a sequential peak in GDP growth likely occurred in 2Q, the remainder of the year should continue to be quite strong.

We believe that corporate earnings growth, which has been impressive thus far in 2021, remains underestimated. In fact, projected bottom-up corporate profit growth lags top-down GDP estimates by a wider margin than we saw coming out of the global financial crisis of 2008 (GFC). Thus, we are confident profit growth will continue to surprise to the upside.

As is the case in almost every economic expansion period, earnings growth has been the key market driver. We are now clearly in expansion mode, with the corporate profit picture and market leadership following the script.

During the second quarter, we saw earnings revisions and momentum lead market performance, while valuation flipped from dominating in 1Q (typical of recovery periods) to not much of a factor. Quality and Growth re-asserted themselves positively. All of these characteristics are very typical of performance during an economic expansion, and we believe they are likely to continue.

Inflation concerns have been a natural topic of debate all year. We continue to foresee reflation back to long-term, i.e., manageable, levels. In this unique cycle, we are experiencing price increases driven by the re-opening of supply not keeping up with demand fast enough. While in some cases we are already seeing a few industrial commodity prices reverting, we expect that it will take another 3-6 months for the supply catch up to occur across most industries.

The global market is up close to 40% over the last twelve months. While market valuations receive a lot of attention, perhaps unnoticed is that this market appreciation has been driven entirely by earnings growth. The market has actually de-rated a bit during this period.

More economically sensitive sectors of the market (e.g., cyclicals and financials) have re-rated along with a resurgence of their growth. In contrast, companies with stronger structural long-term growth have lagged on a relative basis, and in some cases have seen their stock multiples compress. We view this is a classic period of structural winners "growing into" their multiples.

Consistent with our growth outlook we believe most of this experience is likely behind us but may occur off and on during the balance of the year while the market digests the economic and profit picture. Ultimately as economic growth reverts to the long-term mean and the market begins to discount peak cyclical earnings, the structural growers will again have their day.

Corporate Capital Expenditures

Corporate profit margins and cash flows have been impressive, and we believe we are entering an era where more of that cash flow is likely to be directed to capital investment and research and development.

We see two reasons for rapidly ramping capital spending by corporates: 1) digitalization of businesses is now a survival imperative; and 2) shortening supply chains has become necessary to improve operational resilience.

We are witnessing it already: After the GFC, it took US private sector non-residential investment nearly four years to recover to pre-crisis levels. By contrast, capex spending in Q1 2021 already surpassed the Q4 2019 peak. Intellectual property and software investment recovered by Q4 2020, compared to six quarters post-GFC.

The COVID pandemic has elevated operational efficiencies of digital business models into a survival imperative for virtually all companies. Digital businesses were able to operate relatively unscathed during the pandemic lockdowns, while more traditional, high physical contact businesses were forced to shut down. Within industries, those companies who had proactively employed more data and digitally- enabled business practices pressed their competitive advantage. We are seeing companies of all sizes accelerate their investment into cloud-based systems, remote work, digitally driven customer service solutions, and the requisite software applications required to make it all work.

Companies have spent decades rationalizing their supply chains with the goal of maximum operational efficiency. Such extreme efficiency comes with high potential fragility. And this fragility was fully exposed by COVID-related lockdowns and associated export restrictions. Companies are looking to shore up their supply chains, in some instances by reducing or duplicating some parts of the chain. Some of this was starting to happen in response to chilling economic relations between the U.S. and China prior to the pandemic. COVID has only added more reasons to accelerate the buildout.

Shifts in the geopolitical environment in which corporates operate also support investment rather than cash preservation. Since the early 1980s everything from taxation to antitrust to regulatory and labor policies was geared to improving corporate profitability. Today, there is growing recognition that these policies may have gone too far. The operating environment is changing on the margin: pressure for stronger wage growth, especially at the bottom of the income distribution is rising.

The G7 agreeing on a minimum corporate tax rate suggests that the race to the bottom is over. Antitrust authorities in China, Europe and the US are openly exploring ways to bring competition standards to industries and businesses that have been able to behave as monopolies or quasi monopolies. These changes incentivize corporate investment, which in turn will likely expand supply and enable stronger economic growth without higher inflation. We will have more to say on this topic in the coming months and quarters.

Spotlight: Industrials

The confluence of the strong economic cycle and what we expect will be a step up in capital investment spending suggests a portfolio focus on industrials. In fact, many of our portfolios, especially those that include developed markets, have had significant overweight exposure to industrial industries for the last several years.

The key attribute for any of our company investments is a strong and durable competitive advantage, and industrials have several advantages in this regard, even compared to the technology and consumer sectors, which may seem counter intuitive.

Many industrial applications are characterized by hard-to-develop products that require domain knowledge, scale, and manufacturing expertise. Route-to-market, capital allocation, and installed bases are other often powerful and durable advantages.

High entry barriers and consolidated markets are also powerful attributes. Industry structure is important as it influences how industrial value creation is distributed and the risk of value destruction. Favorable market structures exist in areas as diverse as North American rails, aircraft production, airlines, HVAC manufacturing, and other niche markets.

Long duration growth

Although industrial company growth rates may be more modest compared to the fast-moving technology sector, growth is often more durable and exploitable over long periods of time. This persistence of growth is what investors tend to underestimate, and where the market is less efficient.

Industrial processes are often complex and have been optimized over many years. Combined with a high risk of failure, this results in strong inertia and risk aversion that slows adoption of new technologies. In contrast, consumer technology is fast moving as consumers adopt new technologies rapidly in their daily lives. While growth rates are slower for industrial companies, predictability and durability of growth allows companies to exploit opportunities for years if not decades.

Once a company has built an installed base it typically provides an attractive aftermarket opportunity that results from demanding operating conditions, safety, and quality considerations. Jet engines are a classic example where the installed base often provides decades of lucrative services and parts revenue for manufacturers. Strong competitive advantages, high switching costs, and customer risk aversion allow for pricing power in many cases.

The increasing focus on environmental and social considerations has strengthened the role of efficiency in the customer value proposition. For many industrial companies, energy efficiency and safety have been cornerstones of their value proposition from the beginning. These companies enable the reduction of emissions and waste through new, more efficient products and engineering-driven solutions. For example, Spirax-Sarco recently implemented solutions at a Nestle factory that reduced energy use by 45%, emissions by 43%, and water use by 48%.

Potential for strong cash generation and value creating capital allocation

Industrial companies often generate strong cash flow that can be used to fund value-creating organic and inorganic growth.

Domain knowledge and customer intimacy provides opportunities to develop innovative new products and solutions. These products add value for customers and long competitive advantage periods may allow for the realization of strong returns on capital from the investment to develop these products.

Industrial companies often complement organic growth opportunities with value creating M&A. The rationale for acquisitions may include scale, new technologies, and attractive assets in a multi-industry portfolio of businesses.

The top industrial companies have demonstrated discipline by returning cash to shareholders after exhausting organic and inorganic investment opportunities. For example, Atlas Copco has paid $9 billion in regular dividends over the past 10 years, and on three occasions has paid special dividends worth a cumulative $3.3 billion.

Strategic use of financial leverage

Long lived assets and strong competitive advantages allows for the comfortable use of modest leverage to boost returns. Re-leveraging with debt to maintain a constant capital structure is often used to enhance cash flows and returns to equity holders. The strength of business models and competitive advantages can also provide firepower to flex debt levels higher to seek to capitalize on inorganic opportunities. For example, DSV has used leverage to make highly accretive acquisitions the past several years.

Stock specific drivers

Many industrial companies are cyclical and can be volatile stocks. While we are long term investors, we believe that the market tends to overreact to the economic cycles influencing the best-managed industrial companies. This creates opportunities for active managers to deploy capital into mispriced value creators and protect value when the market is too enthusiastic near term.

INVESTMENT PERFORMANCE (AS OF 6/30/21)

	QTR	YTD	1 Y	3 Y	5 Y	Since Incep.[1]
Class I (SI: 08/16/12)	7.78%	6.32%	36.36%	15.41%	15.68%	11.98%
Class N (SI: 08/16/12)	7.73%	6.21%	36.04%	15.12%	15.38%	11.71%
MSCI All Country World ex-U.S. IMI Index (net)	5.60%	9.58%	37.18%	9.42%	11.20%	7.79%

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	1.01%	0.90%
Class N	1.31%	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 4/30/2.

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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