William Blair

William Blair Small Cap Value Fund
Fund Manager Commentary

Market Overview

The third quarter of 2021 was a setback for the favorable equity market backdrop of the previous nine months. Since last November, when the positive results of two effective Covid – 19 vaccines were announced, a rebounding economy and corporate earnings that trounced expectations fueled a powerful stock market rally, particularly in small cap value shares. In recent months, however, the surge in the delta variant of the virus, rising inflation and a sag in consumer confidence have led many investors and companies to reduce their expectations for near term earnings growth. Given this abrupt reversal in sentiment a mild 3% pull back in the economically sensitive Russell 2000 Value index in Q3 2021, which is still up 23% year to date, is not overly troublesome.

Fund Performance

In an effort to standardize our quarterly reporting to industry practices we have begun to report William Blair Small Cap Value Fund's performance attribution using the GICs taxonomy rather than the Russell framework. Using this approach, the largest contribution to relative performance this quarter was the portfolio's below benchmark weighting in the Communication Services sector, which fell 16.4%. The 32.9% decline in the speculative "meme" stock AMC Entertainment (which we do not hold) was a major contributor to the sector's weakness. The stock, however, is still up 1,695% year to date and has been a major headwind to relative performance so far in 2021.

As the delta variant surged during the summer months and inflation proved to be more persistent than expected, consumer confidence sagged along with investors' appetite for Consumer Discretionary shares which dropped 8.4%. Although we had been reducing our exposure to this sector, the portfolio still maintains an overweight of Consumer Discretionary shares. This was more than offset by the significant outperformance of the Portfolio's holdings, which declined only 3.9%. Automotive retailer Group One, and RV manufacturer Winnebago, up 21.8% and 6.9% respectively were major contributors to this result.

Given the favorable interest rate backdrop in the third quarter, the Financial sector performed relatively well, advancing 2.0%. The strategy's Financial holdings exceeded this performance, gaining 4.2%. When the Federal Reserve signaled in late September that it would soon be tapering its massive bond buying program, and Treasury yields finally began to rise, regional bank shares surged and were able to salvage a 2.5% return for the quarter. The Portfolio's bank shares, which collectively are more asset sensitive, performed even better, gaining 3.1%. Other non-bank financial holdings also had strong quarter, including investment banking firm PJT Partners and private equity investor Compass Diversified, each of which advanced in excess of 10%.

Top 10 Holdings[1] as of 9/30/21

Company	*% of Fund*
Matador Resources Co.	1.9
Lantheus Holdings, Inc.	1.6
Belden Inc.	1.6
Tri Pointe Homes, Inc.	1.5
Oxford Industries, Inc.	1.4
ConnectOne Bancorp, Inc.	1.4
Kite Realty Group Trust	1.3
Progress Software Corp.	1.3
Tower Semiconductor Ltd.	1.3
Veritex Holdings, Inc.	1.3
Total Top 10	**14.6**

The strategy's Information Technology holdings also outperformed this quarter, falling 3.2% compared to a 4.8% decline for the Benchmark peers. Most of this outperformance can be attributed to the 15.3% gain in the shares of electronic component manufacturer Belden, Inc. The company is enjoying an uptick in demand from its enterprise clients and, equally important, has a new management team that is focused more on operational improvements than the unsuccessful acquisition strategy of the past.

The Energy sector of the small cap value benchmark was a bright spot in an otherwise down market, returning 2.9%. Prices in the energy commodity complex rose sharply in the quarter, particularly for coal and natural gas. The strategy's relative lack of exposure to these two subsectors was the largest drag on relative performance during the quarter.

The strategy's Industrial holdings also lagged their Benchmark counterparts, falling 4.8%. Two stocks in the office supply and services area, Herman Miller (-19.7%) and Deluxe Corp. (-24.3%) were this source of this underperformance. Deluxe, which provides check and payment services to financial institutions reported solid earnings and closed on a well-received acquisition

[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.

of payment processer First American Payments in the quarter. The decline in the shares is inexplicable and the shares, trading at seven times earnings are a compelling value. Herman Miller sold off as the market began to worry about the rise in commodity costs, particularly steel, which is an important cost for this furniture manufacturer. Nevertheless, the company has a growing order backlog and should see healthy growth this year as it integrates the recent acquisition of former competitor Knoll.

Outlook

Supply chain constraints, which earlier in the recovery seemed limited to semiconductors, have broadened out to affect other areas of the economy, including the availability of labor despite still elevated unemployment. At the same time, rising inflation, at first believed temporary due to the abrupt restarting of the economy post pandemic, is beginning to look more persistent. While we still believe the economy is on solid footing, these headwinds are likely to impede margins and earnings growth over the next few quarters and could lead to negative revisions to both. Less clear is the extent to which this is already reflected in stock valuations. Trading at a weighted average 13.5 times anticipated 2022 earnings, the portfolio already discounts much of this risk.

Late in September, the Federal Reserve signaled that it is ready to begin tapering its massive bond buying program of the last few years. The bond market responded with an increase in treasury yields and a steeping of the yield curve. We are optimistic that this is the first step to a more “normal” interest rate regime as the strategy is positioned well to outperform in such an environment.

Events in Washington D.C. are also likely to come to the forefront in the next few months as a deeply divided Congress needs to raise the federal debt ceiling and the Democratic party attempts to push through over $3 trillion in new fiscal stimulus. The former is almost certain to get done, but the scope and tax implications of the latter remain to be seen.

INVESTMENT PERFORMANCE (AS OF 9/30/21)

	Qtr	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 04/19/89)	-3.05%	21.40%	57.52%	7.68%	12.03%	14.09%
Class N (SI: 07/19/21)	--	--	--	--	--	--
Russell 2000® Value Index[3]	-2.98%	22.92%	63.92%	8.58%	11.03%	13.22%

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.

Effective July 16, 2021, the ICM Small Company Portfolio (the “Predecessor Fund”) was reorganized into the William Blair Small Cap Value Fund. The Predecessor Fund's (Institutional Class shares) performance and financial history has been adopted by the William Blair Small Cap Value Fund (Class I shares). The Predecessor Fund had a different fee structure and performance would have been different if the fund's current fee structure had been in place during the period.

EXPENSE RATIOS

	Gross Expense	Net Expense
Class I	0.94%	0.89%
Class N	1.19%	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 4/30/23.

IMPORTANT DISCLOSURES

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 smaller companies involves special risks, including higher volatility and lower liquidity. Individual securities may not perform as expected or a fund used by the Adviser may fail to produce its intended result. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. Diversification does not ensure against loss.

The Russell 2000 Value Index is the Fund's primary benchmark and consists of small-capitalization companies with below average price-to-book ratios and forecasted growth rates. 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.

Distributed by William Blair & Company, L.L.C., member FINRA/SIPC

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE