William Blair

First Quarter 2022

William Blair Emerging Markets Leaders Fund
Fund Manager Commentary

Market Review

After a strong performance in 2021, global equities declined (-5.47%) in the first quarter (as measured by the MSCI ACWI IMI) amid increased market volatility induced by concerns over inflation, rising interest rates, and heightened geopolitical tension in Eastern Europe. In January, concerns over rising inflation and hawkish moves by the Federal Reserve drove a sharp style rotation into lower-value, lower-growth-oriented securities. Volatility continued in February as the Russian invasion of Ukraine prompted a coordinated response by Western countries in the form of firm sanctions targeted at Russia's financial system. The sanctions on Russia rendered Russian equities and the ruble un-investable with fears of contagion to other markets. In this environment, growth equities significantly underperformed value-oriented equities (the MSCI ACWI IMI Growth declined -9.83% while the MSCI ACWI IMI Value declined -1.08%). This was evident from a global sector perspective as consumer discretionary (-11.63%) and information technology (-10.37%) declined while energy stocks strengthened (+22.64%) on stronger crude oil prices.

Developed markets declined (-5.32%) as measured by the MSCI World IMI. U.S. equities declined (-5.38%) as the Russian invasion of Ukraine amplified existing concerns over rising inflation and interest rates. The Federal Reserve approved its first interest rate increase (0.25%) in over three years with further hikes expected throughout the rest of the year. Europe ex-U.K. plunged (-10.04%) as heightened concerns over the availability of Russian energy imports to Europe weighed on investor sentiment. In addition to targeting Russia's key financial institutions, the U.S. and European allies also cut Russia from the SWIFT International Payment system. Germany also announced it would be halting the certification of the Nord Stream 2 gas pipeline from Russia.

Emerging markets declined (-6.65%) with mixed returns across countries. Russian equities plunged as the broad range of sanctions imposed on their economy weighed heavily on the ruble and market returns. China sharply declined primarily in March (-14.27% for the quarter) amid a spike in COVID-19 cases and newly imposed lockdowns across major cities. Conversely, Latin America generated strong returns for the quarter (+26.34%) with broad outperformance across countries. Oil exporters and commodity beneficiaries such as South Africa (+19.30%), Kuwait (+18.56%), and Saudi Arabia (+16.64%), also outperformed.

Fund Performance

First quarter underperformance by the William Blair Emerging Markets Leaders Fund (Class N shares) versus MSCI Emerging Markets (net) was partly due to style headwinds amid strong outperformance of low valuation stocks. From a sector perspective, the underperformance was driven by negative stock selection within communication services, industrials, and healthcare sectors. The materials underweighting also detracted from relative performance. Stock selection within communication services was particularly detrimental, dragged down by Russian search internet platform Yandex and Southeast Asian gaming and ecommerce company Sea Ltd. Russian job classifieds platform HeadHunter hampered relative results in industrials while Zhangzhou Pientzehuang Pharma of China weighed on healthcare performance.

Despite strong fundamental performance by Yandex and HeadHunter, stock performance weakened amid escalating geopolitical tensions during the quarter and fell sharply in the wake of the Russian invasion of Ukraine. We decided to exit Russia as a result of heightened geopolitical risks and have liquidated positions in Russia to the extent possible. Sea Ltd underperformed amid market rotation and weaker fundamental results, with slowing growth in the core gaming segment and continued investments into new markets, which added to investor concerns about Indian market restrictions and management capital allocation discipline. Zhangzhou Pientzehuang Pharmaceutical, the traditional Chinese medicine

Top 10 Holdings[1] as of 3/31/2022

Company	*% of Fund*
Taiwan Semiconductor Mfg. Co. Ltd.	7.8
Reliance Industries Limited	5.1
Tencent Holdings Limited	4.4
Alibaba Group Holding Limited	3.7
Infosys Limited	3.7
Capitec Bank Holdings Limited	3.5
Grupo Aeroportuario del Pacifico, S.A.B. de C.V.	3.5
PT Bank Central Asia Tbk	3.4
MercadoLibre, Inc.	3.1
Wal-Mart de Mexico, S.A.B. de C.V.	3.1
Total Top 10	**41.3**

[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.

company underperformed as broad policy concerns affected Chinese healthcare companies and high valuation pressured the stock.

Partially offsetting these effects was positive stock selection within energy and financials sectors. Within energy, Reliance Industries bolstered relative performance as the company delivered strong results, benefiting from robust retail trends amid India reopening, rising gas prices, and wireless tariff increases. We believe Reliance's transformation from an asset heavy, cyclical energy business to more diversified, end-consumer businesses with a large and expanding total addressable market is under-appreciated and will continue to drive strong growth and returns over the long term, while its commodity business will continue to provide earnings support in the near term.

Capitec and B3 were the most notable contributors to financials performance. Capitec is a financial services disruptor in the South African market. The company continues to leverage its cost leadership, product expansion, and digital advantage to attract new retail customers and support outlook for growth and returns. The stock benefited from South African economic and loan growth recovery from pandemic weakness, commodity boom, and the continued increase in interest rates. B3 operates an effective monopoly in the exchange and clearing businesses, and it remains uniquely positioned to capitalize on the structural development of capital markets in Brazil and cyclical drivers. The stock benefited from elevated market volatility, international equity flows into Brazil, and attractive valuation.

Positioning

During the period, financials and industrials exposure was increased through the addition to existing holdings and the purchase of China Merchants Bank and Wuxi Lead, respectively.

China Merchants Bank is a premier banking franchise, benefiting from a private-sector culture, customer-oriented approach to banking, and strong governance and risk management. China Merchants Bank has continued to deliver stronger earnings growth and ROE than peers; its leadership on retail and wealth management is a key driver of fee income generation.

Wuxi Lead Intelligent Equipment Co is a Chinese designer and manufacturer of equipment for large-format batteries used in electric vehicles and grid-level power storage. Through a consistent focus on R&D and process learnings, the company has developed a leading position in production equipment for the battery industry with a 30%-40% market share in China, and with a share as high as 60% in certain critical segments of the equipment market.

These increases were funded through reductions to communication services and consumer discretionary sector exposure via liquidation of Yandex in the former and Motherson Sumi and Allegro in the latter. We exited Motherson Sumi amid a weaker fundamental outlook due to continued semiconductor shortages and margin compression on the back of higher input costs. Allegro, the leading ecommerce company in Poland, was sold amid increased competition from Amazon and Shopee, higher capex investment and weaker economic backdrop for Poland.

From a geographic perspective, notable adjustments were decreases to Russia and South Korea offset by increases to Brazil, Mexico and South Africa.

Outlook

As we begin the second quarter of 2022, we reflect on the unique environment we have experienced the last two years. The nature of the economic cycle, originally due to the COVID pandemic, has been exacerbated. We've experienced an extreme closing and reopening of the global economy, accompanied by unprecedented liquidity, and pronounced rotations in style – first with growth outperforming strongly, and more recently value charging back. Finally, the Russian invasion of Ukraine continues to impact the economy and the markets and in response we have needed to reassess our outlook leading into this year.

Similar to our forecast earlier this year, we continue to see a natural slowing of economic growth from very high levels seen in 2020; but also, rising inflation, which implies a further deceleration of earnings growth. We also continue to analyze the rising interest rate environment and its relationship to valuations.

Growth – Post-Russian Invasion

In terms of growth, we continue to see risks of slower economic and corporate profit growth than we had originally expected. Importantly, in contrast to our prior outlook, we now expect materially lower growth in Europe. Leading into the year, most European economies remained much below their pre-pandemic output trajectory and now the Russian invasion of Ukraine has created further downward pressure. Particularly in Eastern and Central Europe, expanding past Russia, into Hungary and Poland, we'll expect continued acceleration in inflation, currencies under pressure and higher interest rates.

Within the U.S., we see less impact and expect growth to remain at broadly similar levels as in our pre-Russian invasion case, which is a significant sequential deceleration in economic activity, from approximately 5.5% growth that we observed in 2021 down to closer to 2.5% growth rate by the end of the year. Corporate profit growth expectations seem reasonable and remain at the highest level for most major countries.

Within China, our outlook is mixed. We've seen a resurgence of COVID and lockdowns, which we expect to impact economic activity and weakening of growth in the first half of this year, coupled with potential geopolitical risk. In contrast, we think the government's focus on a stable economic environment will lead to a moderate fiscal and monetary stimulus as well as potential for some easing of regulatory pressures. Valuations in China are also relatively attractive in our view, after a difficult 2021.

Inflation

The ongoing lockdowns and the military conflict that we now have in Europe has prompted us to revise our inflation projections further. We originally expected inflation to peak in early summer. We now expect inflation to peak at a higher rate in the later part of this year and to rollover thereafter. Of course, wage pressures were something that we were going to monitor on an ongoing basis, and that that remains a key variable to watch in the U.S. What that means for equity markets, is that corporate earnings growth, especially outside the U.S., is expected to decelerate further throughout much of 2022, which will put further downward pressure on multiples.

Valuation and Style Performance

Thus far in 2022, we've seen one of the most significant style rotations we have experienced in multiple decades, which leads us to a discussion regarding equity valuations. The general relationship between rates and valuations holds, and despite the influences of the conflict and persistent inflation, we do believe that we are still in a long-term economic recovery. Thus, we expect gradual monetary tightening and removal of excess liquidity, consequently leading to further multiple contraction as the expansion continues and rates go higher.

This has direct implications for the performance of Growth equities vs Value equities, and we have seen this play out significantly in the beginning of 2022. Valuation as a factor has been by far the strongest driver of performance year to date.

Does this imply that the very long run of quality growth over value is over? We don't think so. Many of the drivers of the outperformance of Growth are still in place: positive but lower economic growth, low (albeit rising) interest rates, and a competitive landscape in the real economy that acknowledges the structural advantages of some areas of the economy over others, as well as those of differentiated, innovative business models. As it relates to interest rates, as measured by the 10-year yield, we believe would need to meaningfully rise from current levels (+300bps), to significantly affect relative future profitability and future investment premium.

And as we look forward, what hasn't changed? We think the innovation and disruption cycle hasn't changed, and arguably, has even accelerated. The dynamic shifting of corporate winners and losers remains a constant, and again, if anything, may be accelerated. Importantly, durability or improvements in corporate competitive advantage will likely remain underappreciated.

We believe this environment will create an important backdrop for active investing. Understanding companies with differentiated business models, unique cultures and durable competitive advantages will increasingly be crucial to determining investment performance in this complex environment.

INVESTMENT PERFORMANCE (AS OF 3/31/22)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 03/26/08)	-9.18%	-9.18%	-16.16%	6.56%	7.58%	4.05%
Class N (SI: 05/03/10)	-9.27%	-9.27%	-16.37%	6.30%	7.31%	3.77%
MSCI Emerging Markets Index (net)	-6.97%	-6.97%	-11.37%	4.94%	5.98%	3.36%

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.

EXPENSE RATIOS

	Gross Expense	Net Expense
Class I	1.33%	1.15%
Class N	1.63%	1.40%

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 4/30/22.

IMPORTANT DISCLOSURES

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 securities of smaller companies tends to be more volatile and less liquid than securities of larger companies. International investing involves special risk considerations, including currency fluctuations, higher volatility, lower liquidity, economic and political risk. Investing in emerging markets can increase these risks. 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 Morgan Stanley Capital International (MSCI) Emerging Markets Index (net) is a free float-adjusted market-capitalization-weighted index that is designed to measure equity market performance of emerging markets. The Index is unmanaged, does not incur fees or expenses, and cannot be invested in directly.

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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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