William Blair

First Quarter 2022

William Blair International 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

Underperformance by the William Blair International Leaders Fund (Class N shares) versus the MSCI ACWI ex. US IMI index was primarily driven by negative stock selection across most sectors. The industrials and healthcare sectors were the largest detractors to relative returns.

Within the industrials sector, Rational was the largest source of underperformance. Rational is a manufacturer of software-enabled food preparation appliances for professional users. Demand for the company's products has recovered faster than expected from the COVID pandemic, but supply chain issues are holding back deliveries and inflation has accelerated significantly. As a result, management has increased prices by an average of 6% to offset higher costs and is producing semi-finished products and storing them near customers until missing components are available so that final products can be delivered as quickly as possible. Longer term, we believe Rational remains well positioned to capitalize on a significant growth opportunity as it penetrates markets around the world. While the company was unlucky with the timing of the launch of the new iCombi oven during the pandemic, it will emerge from the crisis with a major product refresh that strengthens its value proposition—including 50% more cooking capacity, faster cleaning, improved cooking intelligence, and connectivity.

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

Company	*% of Fund*
Airbus SE	3.1
Reliance Industries Limited	3.0
Lonza Group AG	2.9
Canadian National Railway Company	2.8
Taiwan Semiconductor Manufacturing Company Limited	2.6
Novo Nordisk A/S	2.6
ASML Holding N.V.	2.6
LVMH Moet Hennessy-Louis Vuitton SE	2.4
Hexagon AB	2.3
Straumann Holding AG	2.3
Total Top 10	**26.6**

[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.

Atlas Copco, a well-managed and consistently profitable provider of compressors, vacuum solutions, and air treatment systems was an additional source of underperformance. The company reported solid quarterly results despite supply chain constraints impacting growth. New orders were up 26%, but operating profit margins fell short of expectations as supply chain constraints and COVID-related labor challenges weighed on profits. The company continues to offer a sustainable growth profile with an enviable business model and strong competitive advantages. The near term will likely be choppy, but backlogs are swelling as deliveries significantly lag orders. As a result, near-term growth will be held back but the length of the upcycle will likely be extended.

Within healthcare, Straumann detracted from performance as the company's stock price declined despite finishing 2021 on a high note with over 20% organic growth in the fourth quarter and second-half profitability coming in ahead of estimates. Straumann is the global leader in esthetic dentistry, and the categories that the company participates in–implants, clear aligners, and digital dentistry–are growing well above global dental market rates. Straumann is more than just a products company. As a total solution provider, it offers training, support, and a wide range of services to the dental industry all over the world. In addition, the company is investing in technology and expanding capacity to make clear aligners a second long-term growth pillar.

Partially offsetting these effects was an underweight to the consumer discretionary sector coupled with positive stock selection. Within the sector, Alibaba and Compass Group added to relative results. Compass Group, the global leader in outsourced foodservice, posted strong first-quarter revenue growth, reaching 97% of its pre-pandemic level. It is benefiting from the ongoing trend toward outsourcing foodservice and hospitality services globally. The portfolio also benefited from exiting its position in Alibaba in January. While China's e-commerce giant outperformed the sector during the quarter, it declined on an absolute basis.

Positioning

For the period, information technology exposure was increased through the purchases of Dassault Systems, Infosys, and Globant. Dassault, an industrial design software provider, has been at the heart of manufacturing design since its inception. Its products are pre-eminent and power the product cycles of the most technical companies globally. Infosys is a leading IT services company based in India that we expect will benefit from accelerated digital transformation efforts across a wide range of industries and improving ROIC as a result of more disciplined growth strategy. Globant is a pure-play IT service provider in Latin America that focuses on emerging technologies in fast-growing segments such as social media, analytics, and cloud. It combines the engineering talent and technical rigor of an IT service provider with the creativity and innovative culture of digital agencies. Globant is different from the traditional IT service providers because it purely focuses on revenue-generating activities and enriched end-user experiences, as opposed to cost cutting. Financials exposure also increased during the period with the purchase of Toronto Dominion Bank. Toronto Dominion is the largest Canadian bank and the fifth-largest bank in North America. The company has proved to be a high-quality compounder, benefiting from an oligopolistic market structure that leads to high returns on equity with strong gearing to higher interest rates. These increases were primarily offset by a decrease to the industrials sector through trimming existing positions and the sale of SMC.

From a geographic perspective, notable adjustments were increases to the U.K., offset by reductions in Japan and Developed Europe. The portfolio's weighting in Emerging Markets approximated 12% at the end of the period, down 1% from the beginning of the year.

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	Since Incep.[1]
Class I (SI: 08/16/12)	-14.75%	-14.75%	-4.78%	11.30%	10.74%	9.58%
Class N (SI: 08/16/12)	-14.79%	-14.79%	-4.98%	11.03%	10.47%	9.31%
MSCI All Country World ex-U.S. IMI Index (net)	-5.60%	-5.60%	-1.27%	7.87%	6.92%	6.41%

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 4/30/22.

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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