

## William Blair Small-Mid Cap Core Fund Fund Manager Commentary

### Market Overview

In a volatile first quarter, U.S. equity indices declined as the Omicron wave, inflation concerns, and the invasion of Ukraine weighed on equity valuations. Entering the year, the U.S. was experiencing a surge in COVID-19 cases as the Omicron variant spread quickly, resulting in renewed disruptions for certain businesses. Elevated inflation drove expectations for faster monetary tightening by the Federal Open Market Committee (FOMC) and corresponded with a rise in 10-year U.S. Treasury bond yields and U.S. mortgage rates. During March, the FOMC increased the target federal funds rate by 25 basis points for the first increase in this cycle, with expectations for multiple increases throughout 2022 and 2023. The Russian invasion of Ukraine intensified inflationary pressures and supply chain concerns, given Russia's role as a major energy and commodity producer, and contributed to higher oil and gas prices. With higher inflation and an increase in expectations for the pace of Fed rate hikes, equity valuations were pressured while U.S. corporate earnings remained solid.

### Fund Performance

The William Blair Small-Mid Cap Core Fund (Class I shares) outperformed the -5.82% return of the Russell 2500 benchmark during the first quarter, driven largely by stock specific dynamics. Top contributors were New Fortress Energy (Energy) and Century Aluminum (Materials). New Fortress Energy develops, finances and constructs liquified natural gas (LNG) assets and related infrastructure. The company announced a number of project milestones and shares were further supported by a strong backdrop to sign new deals. Shares of aluminum producer Century Aluminum advanced as aluminum shortages drove favorable pricing. Other notable outperformers included Virtu Financial (Financials), Whitecap Resources (Energy) and Cameco Corp. (Energy). From a style standpoint, our typical underweight to companies without earnings was a modest tailwind. Among companies with earnings, there was minimal performance differentiation on quality factors and therefore our bias toward higher quality companies did not provide its typical down-market benefit. Top detractors during the quarter were Trex Company (Industrials), Builders FirstSource (Industrials), Burlington Stores (Consumer Discretionary), Coupa Software (Information Technology) and Kornit Digital (Industrials). Shares of Trex, the industry leader in composite residential decking, and Builders FirstSource, a residential building materials manufacturer and distributor, were pressured in part by concerns that higher interest rates could negatively impact demand for repair/remodel projects and new housing.

### Top 10 Holdings<sup>1</sup> as of 3/31/22

<i>Company</i>	<i>% of Fund</i>
Owens & Minor, Inc.	2.5
Builders FirstSource, Inc.	2.4
Virtu Financial, Inc.	2.2
Cameco Corporation	2.0
Western Alliance Bancorporation	1.9
PacWest Bancorp	1.9
Crown Holdings, Inc.	1.9
Whitecap Resources Inc.	1.8
Denbury Inc	1.8
CF Industries Holdings, Inc.	1.7
<b>Total Top 10</b>	<b>20.1</b>

### Outlook

Amid tightening financial conditions and significant geopolitical tension, we anticipate greater focus on the potential for slowing economic growth. Relatedly, near the end of the first quarter, 2-year and 10-year U.S. Treasury yields inverted briefly. From a demand standpoint, the outlook for consumer spending is opaque given the opposing dynamics of inflationary pressures weighing on real income versus pent-up demand for services and experiences post-Omicron and a positive employment backdrop. Supply chain disruptions are likely to continue, exacerbated by conflict in eastern Europe as well as China's zero COVID policy closing major manufacturing centers throughout the country, further clouding visibility as to the U.S. economic trajectory in the near to intermediate term.

With this backdrop, we believe it is increasingly likely that investors will differentiate among stocks on the basis of quality attributes, such as the durability of earnings and margins. Further, given the valuation-driven sell off in the first quarter, more attractive valuations in certain areas have presented opportunities. We believe our philosophy of identifying durable

<sup>1</sup>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.

businesses whose stocks present attractive risk/reward opportunities should serve us well in a variety of economic environments, as it has historically.



INVESTMENT PERFORMANCE (AS OF 3/31/22)

	QTR	YTD	1 Y	3 Y	5 Y	Since Incep.
Class I (SI: 10/1/19)	-4.05%	-4.05%	7.78%	--	--	19.64%
Russell 2500™ Index	-5.82%	-5.82%	0.34%	--	--	16.00%

**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](http://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	1.22%	0.95%

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. The Fund invests most of its assets in equity securities of small cap and mid cap companies where the primary risk is that the value of the equity securities it holds might decrease in response to the activities of those companies or market and economic conditions. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Investing in small 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. Diversification does not ensure against loss. The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell 2500™ Index measures the performance of the 2,500 smallest companies in the Russell 3000 Index, which represents approximately 19% of the total market capitalization of the Russell 3000 Index. 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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