William Blair

Second Quarter 2022

William Blair Emerging Markets Leaders Fund
Fund Manager Commentary

Market Review

Financial markets remained turbulent through the second quarter of 2022 as heightened inflationary pressures, the prospect for more aggressive interest rate hikes, and the ongoing war in Ukraine continued to weigh on investor sentiment. Global equities declined further (the MSCI ACWI IMI returned -15.83% in the second quarter and -20.44% year-to-date in USD terms). Growth equities continued to underperform value-oriented equities (the MSCI ACWI IMI Growth declined 20.10% for the quarter and 27.95% year-to-date, while the MSCI ACWI IMI Value declined 11.88% for the quarter and 12.83% year-to-date). This was evident from a global sector perspective as information technology (-21.67% for the quarter and -29.8% year-to-date) and consumer discretionary (-20.09% for the quarter and -29.38% year-to-date) declined while energy stocks continued to stay positive on a year-to-date basis (-5.77% for the quarter and +15.57% year-to-date) on strong crude oil prices. The underperformance of growth equities has been highly correlated to inflationary pressures and rapid increase in interest rates, which has led to significant multiple contraction for growth and long-duration companies in particular.

Developed markets declined (-16.31% for the quarter and -20.76% year-to-date) as measured by the MSCI World IMI. U.S. equities declined (-16.85% for the quarter and -21.33% year-to-date) as U.S. Yields hit levels that haven't been seen in nearly a decade. In June, headline inflation surged to 8.6% year-on year, hitting yet another 40-year high, modestly higher than consensus. The Federal Reserve approved an interest rate increase of 0.75%, noting this type of front-loading rate hikes provides optionality and alluded to a potential 0.50%-0.75% increase in July.

European equities also declined (-15.22% for the quarter and -21.97% year-to-date) as measured by the MSCI Europe IMI. Within the U.K. (-11.88% for the quarter and -12.91% year-to-date), inflation hit a new record in June of 9.1% year-on-year. Similarly, Europe ex-U.K. also declined (-16.32% for the quarter and -24.72% year-to-date) with intensifying inflation, hawkish interest rate expectations and recessionary fears looming. Growth in Germany and France slowed and estimates of French, German, and Euro Zone purchasing managers index readings came in weaker than expected in June, further fueling recessionary fears.

Emerging markets declined (-12.10% for the quarter and -17.94 year-to-date as measured by the MSCI EM IMI index) broadly across countries. Chinese equities rallied (+3.28% for the quarter and -11.46% year-to-date) as COVID lockdowns continued to ease, for the time being, leading to accelerated demand. The prospect of government stimulus to help offset headwinds to growth also bolstered investor sentiment. Nevertheless, the regulatory overhang and heightened geopolitical risks remain in the forefront. Conversely, Latin America returns sharply reversed from the first quarter (-22.42% for the quarter and -1.99% year-to-date) as global inflation takes its toll. Brazil (-25.21% for the quarter and +0.36% year-to-date) declined amid soaring inflation and the Selic policy rate spiking to 13.25% in June from 2% in early 2021.

Top 10 Holdings[1] as of 6/30/2022

Company	*% of Fund*
Reliance Industries Limited	6.3
Taiwan Semiconductor Mfg. Co. Ltd.	5.8
Tencent Holdings Limited	5.1
Alibaba Group Holding Limited	4.0
Grupo Aeroportuario del Pacifico, S.A.B. de C.V.	3.7
PT Bank Central Asia Tbk	3.5
China Merchants Bank Co.	3.4
Wal-Mart de Mexico, S.A.B. de C.V.	3.2
Infosys Limited	3.2
China Tourism Group Duty Free Corp Limited	3.1
Total Top 10	**41.3**

Fund Performance

The William Blair Emerging Markets Leaders Fund (Class N shares) underperformed its benchmark, the MSCI Emerging Markets index during the second quarter. Underperformance versus MSCI Emerging Markets (net) was largely due to style headwinds amid strong outperformance of low-valuation stocks. The underperformance is highly correlated to the inflationary pressures and increase in interest rates, which has led to significant multiple contraction for growth companies in particular. Quality companies, which typically offer downside protection, didn't help offset the underperformance amid the largely indiscriminate sell-off of high-growth, high-P/E stocks.

From a sector perspective, the underperformance was driven by negative stock selection within the consumer discretionary, information technology, and financials sectors.

[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.

Consumer discretionary relative performance was hampered by stock selection within internet and direct marketing retail industry as MercadoLibre and Coupang fell during the quarter. While MercadoLibre reported solid first-quarter results with revenues up 63% year-over-year, investor concerns about deteriorating macro conditions, the impact of higher rates, and fuel costs as well as increasing NPLs, coupled with the stock's high P/E multiple, led to a sharp share price correction during the quarter. Coupang's share price declined amid broad Korean equity market weakness and investor rotation toward reopening beneficiaries and lower valuation stocks.

Totvs and Globant were notable detractors within information technology. Totvs is a leading ERP provider in Brazil. The company continued to deliver growth acceleration on its core business while investing for the long term to further expand into new total addressable markets. 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. The company posted strong first quarter results, with revenue growth up 49% year-over-year, exceeding market expectations, and raised its full-year guidance amid a record pipeline and favorable pricing environment.

Within the financial sector, B3 detracted the most during the second quarter as the share price reversed its strong performance in the first quarter. B3 operates an effective monopoly in the exchange and clearing businesses, and we believe it remains uniquely positioned to capitalize on the structural development of capital markets in Brazil and cyclical drivers. The share price weakened amid reduced equity market retail activity and weaker investor sentiment toward Brazil.

Partially offsetting these effects was the positive allocation effect from the underweighting to materials and Korea and overweighting to consumer staples. Stock selection within China also added to relative performance, bolstered by strong performance from Kweichow Moutai, China Tourism Group Duty Free, and TravelSky. Moutai's share price improvement has been driven by recovery in restocking and price increases. The company has introduced new products and established the iMoutai ecommerce platform, expanding distribution channel, and adopting a more proactive marketing strategy. China Tourism Group Duty Free is a monopoly with best-in-class operations and a nationwide Duty-Free Shops license. It also has a Hainan offshore, downtown outbound Duty-Free Shops, as well as online Duty-Free Shops. TravelSky provides IT solutions for the Chinese travel industry. It has a monopoly position in the highly regulated domestic global distribution system for the airline industry in China. Both travel-related stocks were bolstered by China's relaxation of travel restrictions and expectations of further reopening of the country in the coming months.

Positioning

During the period, information technology exposure was decreased through trims to semiconductor holdings and the sale of Douzone Bizon. The company is a leading Korean enterprise resource planning provider for small and medium-sized enterprises. We exited the position amid continued weakening corporate performance and deteriorated outlook as the government scales back subsidies and the company's retention rate of customers benefiting from k-vouchers has been disappointing. Communication services exposure was also reduced via the sale of Naver. Naver is the Korean platform company with a dominant, near-monopolistic position in online search and growing e-commerce and fintech businesses. The sale was driven by decelerating revenue growth against a weaker consumer backdrop, increased margin headwinds, and new management's strategic shift, which we believe will require a ramp-up in investments.

These reductions helped fund increases to industrials and healthcare. Within industrials, we purchased two China A share stocks, Shenzhen Inovance Technology and Suzhou Maxwell Technologies.

Shenzhen Inovance is a Chinese manufacturer of automation and electrical equipment. The company has superior technology and execution versus local peers and cost advantage as well as customization focus versus global players. We believe Shenzhen Inovance is well positioned to benefit from accelerating import substitution trends in Chinese automation and market share gains in EV components.

Suzhou Maxwell has a dominant market share position in critical back-end equipment for photovoltaic (PV) cell production and has an even higher market share in a specific technology that we believe has the potential to become the main technology through the next decade and beyond. Across the PV industry, intelligent equipment stands out as one of the most durable business models given its ability to reduce production costs and improve yield for PV cell producers through a consistent focus on R&D within a consolidated market structure.

Within healthcare, we purchased Bangkok Dusit Medical Services, the largest private hospital group in Thailand. The company's competitive advantages include scale advantages, specialty talent, and brand distinction. While returns have fallen as a result of the pandemic, we believe that the market underestimates the impact from the recovery in non-COVID volumes from both foreign and domestic patients in the near term. In the longer term, Bangkok Dusit Medical Services offers a compelling double-digit earnings growth profile that we believe has the potential to extend for years to come.

From a geographic perspective, notable adjustments were an increase to our China exposure offset by decreases to South Korea, Taiwan, and Brazil.

Outlook

Financial markets remained turbulent through the second quarter of 2022 as inflationary pressures, the prospect for more aggressive interest rate hikes and the ongoing war in Ukraine continued to weigh on investor sentiment. Looking to the balance of this year, we expect a number of these macroeconomic and market trends to persist at least for the near future, however we feel the market impacts of these factors are waning and the potential for a deep or prolonged recession is still unlikely.

As we discussed last quarter, the previous two years have been unique in many ways. Our assessment of a post-pandemic world has changed based on the implications of Russia's invasion of Ukraine where the risk of higher prices and lower growth have increased from our original forecasts. We now expect U.S. inflation to peak later this summer and to roll over much more gradually than previously expected. Within Europe, we expect the peak to come later, as compared to the U.S., as energy and commodity prices continue to drive inflation. We also continue to monitor wage growth, which remains a key variable but remains negative in real terms and has not added to inflationary pressure at this point.

We expect growth to continue to slow, settling to levels below our earlier projections. European growth is most at risk, and will likely be materially lower, approaching zero sequentially as the impacts of the war will limit the European economy's ability to reach their pre-COVID GDP trajectories this year. Within the U.S. we expect growth to end up at +2-3% for the year, but sequential growth will also fall to near-zero. While the probability of a recession will increase, we believe a deep or prolonged recession remains unlikely.

The rising rate and strong dollar backdrop can be problematic for emerging markets, but every cycle is unique, and our outlook remains region and country specific. The major Latin America and the Middle East countries are actually well-positioned for the environment in our view. In Asia, India may be more vulnerable given their commodity dependence, and generally high market valuation. The mixed outlook for China is interesting to us. We have begun to see some easing of the COVID lockdowns that will likely lead to accelerating demand, however the low vaccination rate amongst the older population and potential for a resurgence and its effect on growth remains in the forefront. The regulatory overhang and heightened geopolitical risks continue to weigh on sentiment, though the recent regulatory cycle has peaked. Conversely, we think the government's focus on stable economic growth will lead to moderate fiscal stimulus and potential for monetary easing, in stark contrast to many other major countries. Valuations here appear far more attractive.

Corporate earnings growth, especially outside the U.S., is widely expected to decelerate throughout much of 2022, yet we have seen very few negative revisions. Given the persistent inflation and macro-economic uncertainty, we expect that to change with second quarter corporate reports and the related outlook commentary for the balance of the year. While some of that expected deceleration has been reflected in multiple contraction, negative earnings revisions may continue to put further downward pressure on multiples.

We've created a framework that combines the growth and inflation influences with corporate profit growth and stock valuations so we can understand portfolio positioning and risks. While our base case is that we avoid a deep recession and inflation ultimately proves manageable, we are broadening out the growth and valuation profiles of our strategies to create more balance in this time of economic uncertainty.

For at least the balance of this year, we will focus our research on companies that can manage input costs and pricing power, protecting their growth and margins. Higher quality companies should be able to demonstrate their leadership, and with the valuation contraction of quality, we think this will be fruitful for us. Markets are likely to focus on visibility of growth, relative changes to growth rates, and lower duration equities.

Longer term, we believe the outlook for equity investing may be shifting as well, with increased risk that the growth, inflation, and interest rate environment may be more different than what we have experienced in the recent past. Thus, the backdrop for growth equities and risk assets may continue to be under some pressure.

While that may seem to present a style headwind, we focus on what hasn't changed, and our unique approach as equity investors. Considering what may persist, as discussed previously, the innovation and disruption cycle hasn't changed, and arguably, it has even accelerated. We have continued to see a dynamic shifting of corporate winners and losers. And we believe the durability or improvements in corporate competitive advantage remain underappreciated. These aspects are very much the focus of active growth investors like us as we try to predict the future.

The precise value of those advantages will need to be recalibrated slightly, but understanding companies that have truly differentiated, durable competitive advantages that are likely to persist into the future will remain, in our opinion, the core of great growth investing.

Relating to growth, we continue to see the ongoing shift towards digitalization. We expect this shift across myriad industries, ultimately accelerating in the industrial side of the economy. We reflect on what 4G did for the consumer side of the economy, and what 5G could do for industrials, healthcare, and other sectors.

In addition, the last decade has seen a unique concentration of winners, both within entire industries as well as individual companies. We think this may be at risk of shifting back into something more balanced, similar to what we have seen in decades prior. We are also interested in industries that fit into this notion of a shifting opportunity set, including those that haven't experienced much growth recently but could benefit from the environment we're likely to be in. Examples may include banks and natural resource companies in different parts of the world.

Last, we have the advantage of breadth. Our investment eligibility list has always been inclusive of high-quality, high-return companies with varying growth rates across several industries and countries. It will be exciting over the next several years to turn over more rocks and seek to uncover those under-appreciated growth opportunities in an environment in which we might see more diversity of growth.

INVESTMENT PERFORMANCE (AS OF 6/30/22)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 03/26/08)	-15.55%	-23.30%	-31.66%	-0.22%	2.49%	3.16%
Class N (SI: 05/03/10)	-15.66%	-23.48%	-31.88%	-0.48%	2.22%	2.87%
MSCI Emerging Markets Index (net)	-11.45%	-17.63%	-25.28%	0.57%	2.18%	3.06%

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	1.12%	0.99%
Class N	1.40%	1.24%

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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