William Blair

Third Quarter 2022

William Blair Global Leaders Fund
Fund Manager Commentary

Market Review

Global equities declined in the third quarter (the MSCI ACWI IMI returned -6.64% during the quarter and -25.72% year-to-date in USD terms) as heightened volatility in September erased positive returns in July. Central banks reaffirmed their commitment to lower inflation despite risks to growth. Growth equities moderately outperformed value-oriented equities during the period (the MSCI ACWI IMI Growth declined -5.75% for the quarter and -32.08% year-to-date, while the MSCI ACWI IMI Value declined -7.47% for the quarter and -19.35% year-to-date) as headwinds from rising interest rates and inflation pressures moderated.

Developed markets declined (-6.08% for the quarter and -25.57% year-to-date as measured by the MSCI World IMI). Within the U.S., equities declined (-4.57% for the quarter and -24.92% year-to-date as measured by the MSCI USA IMI). While slowing consumer demand and normalizing supply chains are beginning to exert downward pressure on inflation, the S&P 500 closed the quarter at the lowest level in two years, posting its third straight quarterly loss for the first time since 2009. The Federal Reserve raised interest rates by 75 basis points for the third consecutive time, pledging to continue to raise interest rates until inflation is under control.

European equities also declined (-10.69% for the quarter and -30.31% year-to-date as measured by the MSCI Europe IMI) as Eurozone inflation hit 10%, reaching a historic record, exerting more pressure on the European Central Bank to hike interest rates in October. Soaring inflation continued to be driven broadly by food and energy prices, with energy prices rising over 40% year-over-year. Within the U.K., equities declined (-11.63% for the quarter and -23.03% year-to-date as measured by the MSCI United Kingdom IMI), as British Prime Minister Liz Truss pledged a plan to cut income taxes that was poorly received in the market and triggered a sharp selloff in the British sterling. Similarly, Europe ex-U.K. declined (-10.37% for the quarter and -32.53% year-to-date as measured by the MSCI Europe ex-UK IMI) with intensifying inflation, hawkish interest rate expectations and recessionary fears in the forefront.

Emerging markets declined (-10.79% for the quarter and -26.79% year-to-date as measured by the MSCI EM IMI index) broadly across countries. Chinese equities underperformed significantly (-22.63% for the quarter and -31.50% year-to-date) as a downturn in the property market weighed on investor sentiment. Conversely, Latin America returns sharply reversed from the second quarter (+3.78% for the quarter and +1.78% year-to-date as measured by the MSCI EM Latin America IMI) bolstered primarily by Argentina (+19.87 for the quarter and +2.43% year-to-date as measured by MSCI Argentina) and Brazil (+8.42 for the quarter and +8.82% year-to-date as measured by the MSC Brazil IMI). Within Brazil, inflation moderated, and political risk eased as a result of the first round presidential election results. EMEA declined (-4.91% for the quarter and -30.26% year-to-date as measured by the MSCI EM EMEA IMI) as Russian President Vladimir Putin declared its annexation of four Ukrainian regions.

Top 10 Holdings[1] as of 9/30/2022

Company	*% of Fund*
Microsoft Corp.	3.6
Alphabet Inc.	3.2
Mastercard Inc.	3.1
Amazon.com, Inc.	3.0
Airbus SE	2.7
Compass Group PLC	2.7
UnitedHealth Group Inc.	2.6
Ulta Beauty, Inc.	2.4
Novo Nordisk A/S	2.2
Salesforce, Inc.	2.1
Total Top 10	**27.6**

Fund Performance

The William Blair Global Leaders Fund (Class N shares) underperformed its benchmark, the MSCI ACWI IMI during the third quarter. During the period, the strategy performed approximately in line with the MSCI ACWI IMI (net). From a sector standpoint, allocation effect was positive due to an overweight in consumer discretionary and underweights in communication services and real estate. This was partially offset by an underweight in energy. Stock selection was negative, mostly driven by financials, healthcare, and industrials, partially offset by positive selection within information technology and consumer discretionary. From a regional perspective, allocation effect was negative, due to an overweight to Europe and underweight to the United States. An underweight to emerging Asia helped performance.

[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.

Positive stock selection within information technology came from Atlassian and Workday. Atlassian designs and develops enterprise software for project management, collaboration, issue tracking, integration, deployment, and support services. Atlassian delivered stellar quarterly results, beating expectations on revenue and subscriptions. Long term, we believe the ongoing SaaS transition will ultimately enable more seamless up/cross-selling, faster innovation, higher customer lifetime value, and greater pricing power. Workday offers cloud-based enterprise solutions covering human capital, spend, and financial management, as well as payroll, initiatives, and higher education services across several industries. Workday benefits from the digital transformation and has an underappreciated long-term growth opportunity in our view. Recent results beat expectations on both the top and bottom lines.

Stock selection within consumer discretionary was bolstered by Ulta Beauty, which operates a chain of beauty stores throughout the U.S. offering cosmetics, fragrances, and skin and hair products. Most recent quarterly results included a 4% beat to revenues and a 13% beat on earnings per share. Full-year guidance was also raised, bolstering the stock.

Negative selection within financials was largely due to AIA Group, which is a leading insurance company in Asia ex-Japan. Quarterly results were in line with expectations but negative in absolute terms mostly due to a slowdown in China emanating from China's zero covid policy. We believe AIA will continue to benefit from strong secular growth as a result of rising affluence, low insurance penetration and favorable demographics given its strong brand and distribution. AIA is a key beneficiary of China's liberalization of the life insurance industry.

Within healthcare, Zoetis was the driver of negative stock selection. Zoetis is the largest animal health business in the world focusing on the discovery, development, manufacturing, and commercialization of animal health medicines and vaccines. While the company has continued to deliver solid financial results, the stock has seen multiple contraction from the highs seen late last year given the macro backdrop and higher interest rates.

Industrials stock selection was negative mostly from MTU Aero Engines, a German manufacturer and servicer of commercial engines. Recently the company delivered a strong set of results with an 18% beat on EBIT, but the stock fell given the lack of higher guidance on a forward-looking basis.

Positioning

During the quarter, sector allocations were largely unchanged, save for a small increase in financials. At a regional level, Europe ex-U.K. exposure slightly decreased with the U.S. seeing a small increase mostly due to market movements.

Notable additions to the portfolio were Enphase Energy and Zurich Insurance Group. Enphase, which sits within the information technology sector, produces microinverters, batteries, and electric vehicle chargers for residential consumers. We believe that Enphase has the strongest combination of returns, business model durability, and growth within the pure-play energy transition industry. We believe the company stands to benefit from structural growth of the renewable energy market given customer preferences, government support, and declining costs. We view Zurich Insurance as the defensive stock within European financials, given its stability and best-in-class returns, its uncorrelated fundamentals, and product mix. The Farmers Insurance Exchange business model acts as a defensive inflation hedge as well. A notable liquidation was in Adobe after the company announced plans to acquire Figma at what the market perceives to be an overpriced valuation. We feel this represents a continued deterioration in Adobe's competitive advantages and that the company may have peaked in terms of best-in-class margins.

Outlook

As we head into the fourth quarter of 2022, slowing growth, high inflation and recessionary fears remain at the forefront. Particularly, the economic outlook appears challenged in all three of the world's principal demand centers in the United States, Europe, and China over the next six months. Europe is facing significant energy price shock from the ongoing Russian invasion of Ukraine, China's consumers are much more challenged than is generally appreciated due to the resurgence of COVID cases, and the U.S. economy is balanced precariously between peaking inflation and a determined Federal Reserve.

Recession

In the United States, as we look more granularly and analyze the risks of recession, the likelihood that the United States can shift into a more normal expansion, growing at its pre-COVID averages or whether the consumer will hit on the spending breaks and the economy decelerates to a recession, depends on how quickly inflationary pressures abate and the U.S. Federal Reserve can reach its approximate target policy rate. With key indicators such as the labor market (i.e. wages and payroll) yet to see a significant slowdown, it is likely that chances of a pivot to a less hawkish stance will remain low for the remainder of the year.

In Europe, recession continues to appear more unavoidable. Simply put, Europe has been hit with a sudden and large energy shock. This is not so much about whether Europe will have enough gas to heat its homes this coming winter, but rather about its energy prices being multiples higher moving forward. This has become an increasing concern as both Nord Stream pipelines were discovered to have multiple leaks, due to an unknown source at this time.

In addition, while China appears particularly challenged due to ongoing COVID-related disruption of the domestic economy, demand recovery is expected as its zero-COVID policy eases, which could begin as early as spring 2023. Early signs of gradual easing of monetary policy and increased fiscal stimulus are also supportive to recovery of growth.

Inflation

Global inflation rates have continued to soar in 2022, which as we have discussed in previous quarters has been significantly influenced by Russia's invasion of Ukraine. As a result, Europe is only now reaching its pre-COVID output trajectory, which is considerably slower than the United States. While European inflation is somewhat lower than in the United States, high energy prices, as a result of substituting LNG for Russian gas, are driving inflation. We expect European inflation will peak when energy prices roll over.

In the United States, slowing consumer demand and normalizing supply chains are beginning to exert downward pressure on inflation. Specifically, goods price inflation has already rolled over, although it will be many more months before the year-over-year print will be at 2%. Importantly, monthly CPI data will remain a key indicator to monitor as to when annual inflation will decelerate closer to the target range.

Growth

Corporate earnings growth, especially outside the United States, is widely expected to decelerate throughout the remainder of 2022, given the soaring inflation and macro-economic uncertainty. While some of that expected deceleration has been reflected in multiple contraction, we expect negative earnings revisions to continue to put further downward pressure on multiples.

Lastly, we cannot have a discussion on the economic outlook without mentioning the wild moves in the dollar exchange rates this year. Europe's massive energy price shock and inflationary pressures have created large currency discrepancies. With the U.S. dollar the strongest since the mid-1980s, the message from the foreign exchange markets seemingly is that the U.S. economy is the most resilient in the face of current economic headwinds. As we assess what could break the upward trend of the U.S. dollar, we believe that the likely scenario would require either an easing of natural gas prices in Europe, which are up nearly ten-fold in a 12-month period, or the Federal Reserve's hawkish monetary policy tightening to push the United States into a recession which would ultimately put downward pressure on the U.S. dollar.

As we continue to analyze the various market outcomes and while uncertainty remains quite high, increasingly we realize that the underlying corporate performance of our portfolio holdings remains quite resilient, and their long-term earnings power is likely to remain unchanged. Looking forward, we expect equity returns will likely be driven by earnings growth and multiple compression will largely stop when earnings growth ceases to decelerate.

INVESTMENT PERFORMANCE (AS OF 9/30/22)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 10/15/07)	-7.20%	-35.84%	-32.87%	3.06%	5.15%	7.66%
Class N (SI: 10/15/07)	-7.26%	-35.99%	-33.05%	2.82%	4.88%	7.37%
MSCI All Country World IMI Index (net)	-6.64%	-25.72%	-21.18%	3.64%	4.16%	7.25%

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	1.07%	0.90%
Class N	1.38%	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 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. 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. Investing in securities of smaller companies tends to be more volatile and less liquid than securities of larger companies. Individual securities may not perform as expected or a strategy 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. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. Diversification does not ensure against loss.

The Morgan Stanley Capital International (MSCI) All Country World 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. 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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