William Blair

Third Quarter 2022

# William Blair Emerging Markets Growth 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 9/30/22

| *Company* | *% of Fund* |
|---|---|
| Taiwan Semiconductor Mfg. Co. Ltd. | 7.1 |
| Reliance Industries Ltd. | 4.9 |
| PT Bank Central Asia | 3.4 |
| Wal-Mart de Mexico | 2.4 |
| PT Bank Rakyat Indonesia(Persero) | 2.2 |
| NetEase, Inc. | 2.1 |
| Itau Unibanco Holding | 2.0 |
| Samsung Electronics Co., Ltd. | 2.0 |
| JD.com, Inc. | 2.0 |
| Kweichow Moutai Co., Ltd. | 1.9 |
| **Total Top 10** | **30.0** |

## Fund Performance

The William Blair Emerging Markets Growth Fund (Class N shares) outperformed its benchmark, the MSCI Emerging Markets IMI index during the third quarter. Outperformance versus MSCI Emerging Markets IMI (net) was driven by a combination of favorable stock selection and allocation effects in particular, strong stock selection in information technology, healthcare, and financials sectors bolstered relative performance.

In information technology, Totvs and Globant, were key contributors to relative performance this quarter as the stocks rebounded amid continued strong operating performance. Totvs is a leading ERP provider in Brazil. The company delivered better-than-expected growth and profitability results during the quarter. In addition, increased recurring revenues, now accounting for 85% of the core ERP business, improve

[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.

durability in corporate fundamentals. 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 second-quarter results, with revenue growth up 41% year-over-year, exceeding market expectations, and raised its full-year guidance amid continued strength in demand. Thailand- based hospital Bangkok Dusit Medical Services bolstered relative performance in the healthcare sector amid strong results on the back of a rebound in international patients' revenues, following COVID disruptions. Bank Central Asia and Itau drove the outperformance in financials. Bank Central Asia is the highest-quality bank in Indonesia and is one of the strongest banks globally thanks to its exceptional deposit franchise and efficient cost structure. The bank delivered strong results amid accelerating loan growth and lower provisions and raised loan growth guidance. In our view, the robust growth outlook remains well underpinned against a favorable economic backdrop in Indonesia, improving asset quality, and higher interest rate environment. Itau, Brazil's leading private sector bank with a strong retail banking franchise, outperformed as the bank posted solid second quarter results and increased its full-year guidance. The positive outlook for net interest income is driven by a combination of a higher Selic rate and better loan mix.

Partially offsetting these effects was the negative stock selection in energy as Reliance Industries lagged the sector during the quarter. While the company's operating performance remained robust amid continued tailwinds in energy and retail network expansion, the stock performance weakened due to concerns over growth plans for the Jio 5G rollout as well as green energy, which will result in a sharp capex increase going forward. Stock selection in consumer staples and industrials also detracted from relative results, dragged down by weak performance by Chinese A Share names Yunnan Botanee Bio-Technology and Wuxi Lead Intelligent Equipment respectively. Botanee, the leading player in China's fast-growing dermocosmetics market, continued to execute well in a challenging economic environment. The stock's weak performance is reflective of the cautious near-term demand outlook impacted by COVID and the economic backdrop. In addition, the underweight allocation to materials hurt relative results. Wuxi Lead Intelligent Equipment is the equipment manufacturer for large format batteries used in electric vehicles and grid level power storage. The company posted weak second-quarter results as sales were impacted by delayed revenue recognition due to COVID restrictions. In addition, the underweight allocation to materials also hurt relative performance.

## Positioning

During the period, information technology exposure was reduced through trims to existing holdings and the sale of Mediatek and Silergy. We sold the stocks amid continued cyclical growth deceleration and deteriorated outlook driven by a weaker macroeconomic backdrop and inventory correction. Financials exposure was also decreased, primarily through reductions to existing holdings.

These reductions helped fund increases to the consumer staples and consumer discretionary sectors.

In consumer staples, we purchased Wuliangye Yibin and Foshan Haitian Flavouring. Wuliangye Yibin is the second-largest premium baijiu player. While COVID uncertainties remain, volume recovery shows that premium brands continued to outpace other segments. We believe that earnings trends should benefit from continued demand recovery, price hikes, cost control, and margin improvement.

Foshan Haitian Flavouring is the Chinese seasoning company. We believe that Haitian has one of the most attractive long-term growth profiles in China's packaged foods industry given its leadership in the fast-growing and highly fragmented seasoning and sauce industry, strong brands, extensive channels, and solid management.

In consumer discretionary, we came back to Alibaba as fundamental trends are improving, aided by the government stepping back from incremental regulatory actions coupled with management focus on better capital allocation, loss reduction, and prioritization of cost optimization and control. While cloud weakness continued amid slowing demand across the industry, we believe its leadership on talent and scale supports Alibaba's longer-term advantage. We believe improving profitability and trough valuation should support the stock performance. We also initiated a position in Lojas Renner, Brazil's largest omnichannel apparel retailer. Thanks to its strong brand positioning among the mid to high-income population, we believe that Renner is well positioned to capitalize on a cyclical recovery of the Brazilian consumer. In addition, the company is nearing the end of a multi-year investment phase as it builds out its e-commerce capabilities; we believe resulting operating leverage is underestimated by consensus.

From a geographic perspective, we increased our exposure to India and Brazil, offset by decreases to Taiwan and Korea.

## 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: 06/06/05) | -8.76% | -34.26% | -34.44% | 1.97% | 0.61% | 3.25% |
| Class N (SI: 06/06/05) | -8.85% | -34.41% | -34.62% | 1.69% | 0.34% | 2.98% |
| MSCI Emerging Markets IMI Index (net)[3] | -10.79% | -26.79% | -27.51% | -1.20% | -1.44% | 1.27% |

**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 | 1.11% | 0.99% |
| Class N | 1.39% | 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 4/30/23.

## 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. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. 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 Fund is expected to incur operating expenses that are higher than those of mutual funds investing exclusively in U.S. equity securities due to the higher custodial fees associated with foreign securities investments.

The Morgan Stanley Capital International (MSCI) Emerging Markets IMI Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of 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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