William Blair

Third Quarter 2022

William Blair Mid Cap Value Fund
Fund Manager Commentary

Market Overview

Halfway through the 3rd quarter of 2022, it felt as if the Chairman of the United States Federal Reserve (the "Fed") adopted the mantra of boxer George Foreman who once said, "I may telegraph the punch, but the message gets through!". At the annual mid-August gathering of Fed officials in Jackson Hole, Chair Jerome Powell communicated to financial markets that inflation remained a concern for the economy and that the Fed was likely to aggressively raise interest rates in response. More importantly, we believe Powell signaled that Fed had effectively abandoned its previous cautious approach and desire to avoid economic collateral damage when he said, "reducing inflation is likely to require a sustained period of below-trend growth, some softening labor market conditions, and some pain to households and businesses." This commentary suggested that the Fed was not only less concerned with engineering a so-called soft-landing, but that it believed disruption was a requirement of its mission. Any plans for an imminent pause in rate hikes, or, as some participants believed, a pivot to easing became unlikely.

Financial markets acknowledged the Fed's message with a quick and negative response. For example, the price of WTI oil which had been trying to stabilize its slide throughout the quarter, quickly reversed course and ended down almost an additional 20%. Similarly, a decreasing yield of the 10-Year US Treasury (the "10 Year") quickly turned and gained over 75bps. The S&P500 Index (the "S&P") and Russell Mid Cap® Value Index (the "Benchmark") which were each up over 12% through mid-quarter fell 16% to end in negative territory. By the time the Fed raised rates 75bps at the end of September, a lot of pain had already been felt by investors.

Fund Performance

The William Blair Mid Cap Value Fund (Class I shares) underperformed its benchmark, the Russell Mid Cap Value index during the third quarter. Both the allocation and selection effect detracted from relative performance for the quarter. For the most part, sector performance continued the trend of positive or negative correlation to rising interest rates, specifically the 10 Year yield. For example, bank holdings (which typically benefit from increasing rates) contributed to relative performance, while our consumer finance and investment management holdings (which typically respond negatively to increasing rates) detracted from relative performance. Similarly, while fixed income proxies, such as Real Estate and Utilities, have been on a steady decline throughout the quarter, the market all but abandoned these stocks after the Jackson Hole speech, which benefitted our underweight position. In Utilities the benefit of this position was slightly offset by the section effect of not owning an unregulated company which did not meet our quality standards. Consumer Discretionary detracted from relative performance, which was entirely due to our exposure to household durables which tend to move inversely with home mortgage rates. Materials was the worst performing sector as the market discounted the deflationary impact of rising rates on commodity prices and producers.

While the Energy sector was a modest detractor, it became less of a headwind to performance in the quarter. At the end of June, the Benchmark weighting was reduced by over 200bps, which narrowed our overall underweight position. In addition, we remain constructive on oil and natural gas, so we took advantage of the temporary pull-back in the price of those commodities to initiate positions in Coterra Energy, Inc. and APA Corporation, two leading energy producers. The combination of these two actions brought the Fund's sector weight in-line with the Benchmark.

Interestingly, the Industrial sector rebounded from the worst contributor in Q2 to be the best in Q3, which it had also been in Q1. A complete reversal was also seen at the subsector level, with Electrical Equipment, Machinery, and Agricultural Equipment shifting from the worst categories in Q2 to again the best in Q3 (as they were in Q1).

Top 10 Holdings[1] as of 9/30/22

Company	*% of Fund*
Regal Rexnord Corp.	2.3
Knight-Swift Transportation Holdings Inc.	2.2
Molson Coors Beverage Co.	2.2
Entergy Corp.	2.1
SLM Corp.	2.1
LKQ Corp.	2.1
Snap-on Inc.	2.1
Host Hotels & Resorts, Inc.	2.0
Willis Towers Watson Public Ltd. Co.	2.0
Huntington Bancshares Inc.	2.0
Total Top 10	**21.1**

[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.

Outlook

Given the Fed's rhetoric, we believe the focus of the equity market has shifted from assessing the impact of inflation to that of economic turmoil. More simply, the market is asking which companies will fare best in a Fed-induced recession. As stock-pickers, however, we think the opportunity set is more nuanced and that while the market might be asking the right question, it does not always arrive at the right conclusion. Said another way, in times of uncertainty, we believe stocks can be found which already price in a scenario that is potentially too bearish and can bought at a discount to their true value. By buying stocks with what we perceive is limited downside, we can be patient and wait for the market to recognize this discrepancy. We view the rebound in the Industrial sector, and especially the stocks of cyclical industries such as trucking and machinery, as an encouraging sign that this process is underway.

There is also an increasing possibility, in our view, that unintended consequences of its actions could lead to unexpected financial instability, which would force the Fed to prematurely pause its interest rate campaign and accept a higher inflation rate than desired. Examples of such exogenous shocks are the 1994 Mexican Peso Crisis, the 1998 Russian debt default, and the 1998 failure of hedge fund Long Term Capital Management. These events, which were triggered by dislocations in foreign exchange markets, are especially topical given the extreme move in the value of the U.S. Dollar. Year to date, the value of the Dollar has increased approximately 26% against the Japanese Yen, 15% against the Euro, and 17% against the British Pound, which is now at a multi-decade low. Recently, the Bank of England was forced to intervene in government bonds to stem off disruption the UK pension system. Similarly, the Bank of Japan has tried, unsuccessfully, to manage the decline of the Yen. While it is impossible to gauge the extent of an unknown incident, we feel confident that the Portfolio is well positioned to benefit from an interest rate pause.

While the future is uncertain, we remain confident in our time-tested process, experienced team, and ability to deliver strong client outcomes over long periods.

As always, we appreciate your business. Please feel free to contact us with any questions or concerns.

INVESTMENT PERFORMANCE (AS OF 9/30/22)

	Qtr	YTD	1 Y	3 Y	5 Y	10 Y	Since Incep.
Class I (SI: 3/16/22)	-6.06%	--	--	--	--	--	-17.90%
Russell Midcap® Value Index[3]	-4.93%	--	--	--	--	--	-14.97%

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%	0.75%

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 4/30/24.

IMPORTANT DISCLOSURES

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 smaller companies involves special risks, including higher volatility and lower liquidity. Individual securities may not perform as expected or a fund 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. Diversification does not ensure against loss.

The Russell 2000 Value Index is the Fund's primary benchmark and consists of small-capitalization companies with below average price-to-book ratios and forecasted growth rates. 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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