William Blair

Fourth Quarter 2022

William Blair Small Cap Value Fund
Fund Manager Commentary

Market Overview

In an otherwise dreary year for the equity market, small cap value stocks rallied 8.42% in the final quarter of 2022. This move was driven by the market's perception that the Federal Reserve is pivoting to a slower rate of interest rate increases and is approaching a terminal rate for Fed Funds. This view was bolstered by a tamer, although still elevated, October CPI reading and comments from the Federal Reserve Chairman that seemed decidedly less hawkish.

Fund Performance

The William Blair Small Cap Value Fund (Class N shares) outperformed its benchmark, the Russell 2000 Value index during the fourth quarter. Within the small cap value universe, investors again showed a preference for stocks that possess both higher quality and lower valuation factors. In fact, companies with money losing operations and a low return on equity lagged badly with declines of 1% and 6.6% respectively. At the same time, as the market sensed that the Federal Reserve had pivoted to a slower pace of rate hikes, more economically sensitive sectors of the Benchmark, like Energy, Materials, Industrials and Consumer Discretionary, outperformed to the upside. The Fund generally benefitted from both trends in the quarter and thus outpaced its Benchmark with a 10.70% gain (Class I).

The Fund's Information Technology holdings performed particularly well in the quarter, advancing 14% compared to a much lower 5.3% gain for the sector peers. Maximus, Inc., which provides technology solutions for federal, state and local governments, was a standout performer, climbing 27.2% as the company has begun to recover from pandemic related headwinds. With the forthcoming end to the President's public health emergency order, that halted the company's work on Medicaid redeterminations, we believe the near-term outlook for earnings is increasingly favorable. The Portfolio's investments in the technology hardware subsector, rose 13.1% also performed relatively well as many of the supply chain issues that hindered these companies' results over the last eighteen months appear to be easing.

Healthcare was the only Benchmark sector that declined during the quarter, falling 4.8%. The Portfolio's holdings recorded a somewhat smaller 3.9% loss but the Fund's significant underweight of the sector (5.4% versus 10.6%) was a major contributor to relative performance. Greater than one half of the Healthcare stocks in the Russell 2000 Value are in the biotechnology subsector where we have struggled to find value. We do see value, however, in select medical device and equipment suppliers, including recent addition Integer Holdings, which advanced 11.2% in the quarter. The company and other peers are slowly beginning to recover from a decline in elective medical procedures that occurred during Covid related lockdowns.

Top 10 Holdings[1] as of 12/31/22

Company	*% of Fund*
Belden Inc.	1.6
Albany International Corp.	1.4
Methode Electronics, Inc.	1.4
Kite Realty Group Trust	1.3
Terex Corporation	1.3
Progress Software Corporation	1.3
CBIZ, Inc.	1.2
Texas Capital Bancshares, Inc.	1.2
Integer Holdings Corporation	1.2
Old National Bancorp	1.2
Total Top 10	**13.1**

Although energy and industrial commodity prices generally softened in the fourth quarter, the Energy and Materials sectors were the best performing sectors, climbing 17.6% and 18.7% respectively. These sectors, perhaps the most economically sensitive, benefitted the most when investors sensed the Federal Reserve was approaching the end of its rate hiking campaign and may thus avoid the need to put the economy in a deep recession to combat inflation. The Fund benefitted from solid stock outperformance in both sectors, with gains in excess of 22%. Orien Engineered Carbons, a maker of specialized rubber black was a standout performer, rising 33.6%. After several years of elevated capital spending to meet more stringent EPA regulations, the company appears poised to deliver substantial free cash flow in the coming years. The company's confidence in this outlook is demonstrated by the recent initiation of a $50 million share repurchase authorization. The Fund's outperformance in the Energy sector was bolstered by a 42.2% gain in the shares of our oilfield equipment and services holdings.

The largest headwind to relative performance this quarter came from the Portfolio's Consumer Discretionary investments, which gained 10.1% but fell short of the 13.0% return for the Benchmark constituents. This was primarily the result of poor performance of our retailing stocks, which declined 6.5%. In

[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.

particular, shoe retailer Designer Brands dropped 35.8% after reporting disappointing earnings. Like many retailers, the company is facing a more promotional environment as excess inventories are being cleared out of the channel. Nevertheless, with a much improved balance sheet and trading at just five times reduced estimates for the upcoming year, we believe the company is very attractively valued and the sell off in the shares is way overdone.

The Fund's Industrial holdings, while gaining 13.4% failed to keep pace with the Benchmark peers, which climbed 15.5%. Given the strength in more economically sensitive stocks, it is unsurprising that capital goods providers outperformed, increasing 19.0%. The Fund's investments came up short in this subsector, gaining only 14.1%. A lack of exposure to the aerospace and defense industry, which have been bolstered by war spending in the Ukraine and mergers and acquisition activity was partly to blame. But the Portfolio's buildings products stocks, Armstrong World, and PGT Innovations also struggled, declining over 13% each.

Outlook

As we enter 2023 there seems near unanimity that the economy will experience a recession sometime over the next 18 months. For now, it appears that the economy is slowing but still growing driven by resilient consumer spending and low unemployment. While it is possible that the Fed will engineer a so called "soft landing," this is not our base case. We assume there will be a mild recession, with the risk being that the Fed over tightens causing a deeper pullback. With the Fund trading at just over 11 times anticipated 2023 earnings, the market is already pricing in a significant decline in earnings.

INVESTMENT PERFORMANCE (AS OF 12/31/22)

	Qtr	YTD	1 Y	3 Y	5 Y	10 Y	Since Incep.
Class I (SI: 04/19/89)	10.70%	-11.12%	-11.12%	5.76%	5.13%	9.97%	--
Class N (SI: 07/19/21)	10.61%	-11.36%	-11.36%	--	--	--	-2.59%
Russell 2000® Value Index	8.42%	-14.48%	-14.48%	4.70%	4.13%	8.48%	-5.69%
Morningstar Small Value Category	11.20%	-10.16%	-10.16%	7.06%	4.77%	8.67%	--

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.

Effective July 16, 2021, the ICM Small Company Portfolio (the "Predecessor Fund") was reorganized into the William Blair Small Cap Value Fund. The Predecessor Fund's (Institutional Class shares) performance and financial history has been adopted by the William Blair Small Cap Value Fund (Class I shares). The Predecessor Fund had a different fee structure and performance would have been different if the fund's current fee structure had been in place during the period.

EXPENSE RATIOS

	Gross Expense	Net Expense
Class I	0.82%	--
Class N	1.26%	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'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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