

## William Blair Global Leaders Fund Fund Manager Commentary

### Market Review

Global equities advanced in the fourth quarter (the MSCI ACWI IMI returned +9.84% for the quarter and -18.40% year-to-date in USD terms), marking the end to the worst year for global equities in more than a decade. Growth equities underperformed value-oriented equities (the MSCI ACWI IMI Growth returned +5.67% for the quarter and -28.24% year-to-date, while the MSCI ACWI IMI Value returned +13.98% for the quarter and -8.07% year-to-date) as equity markets rallied behind a more dovish outlook for Federal Reserve rate hikes and loosened COVID-19 restrictions in China. From a global sector perspective, energy was the only sector to outperform on a year-to-date period (+17.35% during the quarter and +34.10% year-to-date as measured by the MSCI ACWI IMI index), while consumer discretionary and communication services were laggards (+0.84% during the quarter and -30.99% year-to-date and +2.68% quarter-to-date and -35.29% year-to-date, respectively, as measured by the MSCI ACWI IMI index).

U.S. equities advanced during the period (+7.08% for the quarter and -19.61% year-to-date as measured by the MSCI USA IMI) as investor optimism was bolstered by the prospect of cooling inflation and that policy tightening would slow. Hopes for a near-term peak in the Fed tightening cycle were fueled by some positive developments on the inflation front, including cooler CPI prints for both October and November. While the latest CPI print for November slowed to 0.1% month-on-month, inflation remains elevated at 7.1% year-on-year. Nevertheless, the final Fed rate hike of the year was 50 basis points, a pivot from the four straight 75-basis-point increases in 2022.

European equities outperformed global markets for the quarter (+19.52% for the quarter and -16.71% year-to-date, as measured by the MSCI Europe IMI), capping off a difficult year, mainly from the fallout of Russia's invasion of Ukraine and subsequent energy crisis. Within the U.K., equities advanced (+17.24% for the quarter and -9.76% year-to-date, as measured by the MSCI United Kingdom IMI), following a turbulent September. On the political front, former Prime Minister Liz Truss stepped down and Rishi Sunak from the Conservative Party was appointed. Similarly, Europe ex-U.K. advanced (+20.28% for the quarter and -18.85% year-to-date, as measured by the MSCI Europe ex-UK IMI), aided by a rally in the fourth quarter amid hopes that cooling inflation would sway central banks.

Emerging markets gained (+9.50% for the quarter and -19.83% year-to-date, as measured by the MSCI EM IMI index) broadly across countries. Chinese equities rebounded (+13.83% for the quarter and -22.03% year-to-date) on news of the relaxation of the zero-COVID policies, which helped boost optimism for economic growth in 2023. Similarly, Latin America returns

### Top 10 Holdings<sup>1</sup> as of 12/31/2022

<i>Company</i>	<i>% of Fund</i>
Mastercard Inc.	3.5
Airbus SE	3.4
Microsoft Corporation	3.4
Compass Group PLC	2.9
Novo Nordisk A/S	2.8
Alphabet Inc.	2.7
LVMH Moët Hennessy-Louis Vuitton SE	2.6
Ulta Beauty, Inc.	2.5
UnitedHealth Group Incorporated	2.5
MTU Aero Engines AG	2.2
<b>Total Top 10</b>	<b>28.5</b>

continued to advance (+5.45% for the quarter and +7.26% year-to-date, as measured by the MSCI EM Latin America IMI), bolstered primarily by Argentina (+32.68 for the quarter and +35.91% year-to-date, as measured by MSCI Argentina) and Mexico (+13.47% for the quarter and flat for the year). Brazil, which outperformed for most of 2022, underperformed on a relative basis in the fourth quarter (+1.37% for the quarter and +10.31% year-to-date, as measured by MSCI Brazil IMI) amid investor concerns about President Luiz Inácio Lula da Silva's plans to ramp up fiscal spending. EMEA gained (+6.65% for the quarter and -25.62% year-to-date, as measured by the MSCI EM EMEA IMI) despite weaker returns from Qatar and Saudi Arabia (-14.43% during the quarter and -7.37% year-to-date, as measured by MSCI Qatar IMI, and -7.32% quarter-to-date and -5.13% year-to-date, as measured by MSCI Saudi Arabia IMI), impacted by weaker energy prices.

### Fund Performance

The William Blair Global Leaders Fund (Class N shares) outperformed its benchmark, the MSCI ACWI IMI during the fourth quarter. The strategy performed approximately in line with the MSCI ACWI IMI Index. From a sector perspective,

<sup>1</sup>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.

allocation effect was negative, driven by an overweight in consumer discretionary and information technology and an underweight in energy. Stock selection added value primarily within the consumer discretionary and industrials sectors, offset by negative selection within information technology and healthcare.

Within industrials, positive stock selection came mostly from Airbus and MTU Aero Engines. We view Airbus as the best-positioned company among aircraft manufacturers given its competitive position; strong product lineup, especially in the narrow-body segment; and lower cost base. The company reported solid earnings during the quarter as demand is recovering faster than expected. Management confirmed an increase in production on narrow-body aircraft and is now exploring increasing wide-body production volumes. MTU Aero Engines is a German manufacturer and servicer of commercial engines. The company beat on revenue and earnings and importantly raised its forward-looking guidance above prior consensus, leading to strong performance of the stock. We believe MTU is in a superb competitive position, with market share on key narrow-body programs and exposure to a younger fleet.

Consumer discretionary stock selection was bolstered by investments in Nike and Louis Vuitton Moët Hennessy (LVMH). Nike reported excellent corporate results, with sales exceeding consensus across all major geographic regions, though the beat in North America was the primary driver of outperformance. Gross margin came in higher than anticipated and inventory started to moderate. Encouragingly, revenue growth within China was positive. LVMH, a leading luxury goods and apparel company, performed very well as the high-end consumer has remained resilient and pricing power has been favorable. Recent results were strong, with both top- and bottom-line beats.

Stock selection within information technology detracted value, largely due to positions in Atlassian and Salesforce. Atlassian designs and develops enterprise software for project management, collaboration, issue tracking, integration, deployment, and support services. Layoffs and the slower pace of hiring among customers are leading to slower growth at Atlassian, and the business is more sensitive to economic conditions than we previously thought. Full year 2023 guidance was recently lowered. At the same time, Atlassian is a high-valuation, long-duration stock. We exited the position during the quarter. While corporate performance in the most recent quarter for Salesforce was strong, forward-looking revenue came in lower than expected, and the company also announced the departure of its co-CEO, weighing on the stock price.

Within healthcare, the primary driver of relative underperformance was Edwards Lifesciences. Reported and forward-looking earnings recently came in below market consensus. The primary growth driver for Edwards, its TAVR (transcatheter aortic valve replacement) business, slowed dramatically in 2022, leading to downward revisions in earnings expectations and underperformance of the stock. We exited the position during the quarter as our expectations for the company have been revised down.

## Positioning

During the quarter, healthcare exposure was reduced through the sale of Edwards Lifesciences mentioned above. Information technology was also reduced through the sale of Atlassian and a liquidation of Fidelity National Information Services, a payment services provider. We cut the exposure due to concerns on company execution and market share in the payments industry. Exposure to industrials was increased during the quarter. We shifted our exposure in North American rails through a purchase of Canadian Pacific and sale of Union Pacific. We prefer Canadian Pacific due to its superb competitive advantages, combined with good level of visibility and value extraction opportunity from the recent acquisition of Kansas City Southern. We also purchased Old Dominion Freight Line, the second-largest less-than-truckload (LTL) freight carrier in the United States. The cyclical downturn creates an attractive entry point for what is a quality-growth, long-term compounder whose competitive advantages are centered on network density and quality of service. Exposure to Europe and the U.K. was increased, while exposure to the U.S. and Japan was reduced.

## Outlook

Our outlook has two primary elements: first, the current cycle and the implications for markets in 2023. Second, we address the bigger issue, relating to the developing likelihood we have begun to shift into a different economic and market environment, marking a different era than we have seen in the decade-plus post the Global Financial Crisis (GFC).

### 2023

We likely experienced peak rates of inflation during the fourth quarter and thus as price increases abate, we may be finally nearing the end of the central bank tightening in the coming months. However, while perhaps peaking, inflation is likely to remain above the historically low levels experienced during the last decade. Tight labor markets and slowing rate of globalization are probable key culprits.

Global central banks have been vigilant managing these inflationary forces, and even if we are at the tipping point of the current tightening cycle, it is quite possible that interest rates remain at levels above what we have been used to seeing during the post-GFC era.

Regarding economic growth, there is great debate about whether a recession in the U.S. can be avoided, but the precision is not relevant. It's clear to us that we are and will be in a slowdown during the first part of the year, and that will be felt even deeper in Europe.

Corporate earnings growth is projected to be slower in 2023 than 2022, and consensus estimates still appear too high in our estimation. The market started to acknowledge this in the fourth quarter of last year, and we expect that will pick up in the first months of this year.

China is a different story, as growth should accelerate as they emerge from extended COVID-related lockdowns. However, we expect growth will be uneven, and not as strong as we have seen elsewhere given there hasn't been as much fiscal support to boost consumption.

Interestingly, pent-up travel demand from China is likely to contribute more to persistent inflation than is generally understood. We expect that close to 300 million of China's population could be traveling abroad in the next several quarters, buoying demand for goods and services outside of China increasing inflation volatility—one of the reasons we believe inflation may prove to be stickier this year.

With that backdrop—lower but elevated rates of inflation, interest rates remaining above that seen in the last decade, and sluggish economic and corporate profit growth—it will remain a difficult equity market to navigate. While the big move in valuation occurred in the early parts of 2022, we still believe valuation will remain a powerful factor, in other words market returns will be a function of earnings growth rather than valuation.

The nature of this environment, and the potential for shifts in where we might find future earnings growth, in 2023 and beyond follows in the next section.

### A Changing Investment Era?

We postulate that the period post the Global Financial Crisis was anomalous, and going forward we expect we could experience marginal shifts to the investing environment that would suggest an era dating back to prior decades rather than merely reverting back to the 2010s.

It's been well documented, but worth noting, that the unusual shock to the global economy and markets resulting from the financial crisis led to a decade of extremely accommodative monetary policies, lowering interest rates to historic levels.

The period was also unusual in that the expansion was quite protracted, intermittently lasting for most of the decade. We witnessed the continuation of globalization and China's ascension into the world's second biggest economy, with still high (>6%) rates of growth as key drivers. Not to mention continuation of innovation and productivity enabled by the digitalization of many areas of the industrial and consumer economy.

Thus, we experienced a long, albeit low growth, expansion accompanied by very modest inflation. This ultimately led to a period of strong returns for equities and risk assets, as "TINA"—there is no alternative—took hold in a low (zero) interest rate environment.

This ballooned during the pandemic, once it was clear to the markets that global central banks were going to do whatever was necessary to keep economic demand from plummeting. The bubble was pricked in 2022, as inflation and rates accelerated at an historic rate.

Beyond this year, there is no reason to believe that underlying real structural growth will be materially different than what we have seen in the prior decade. If anything, there may be slight risks to the downside.

As mentioned earlier, inflation and rates have shifted upward, and we think the forces that caused this may be beyond just this current pandemic-influenced economic cycle. We are loath to

bet that these will revert to recent lows in the near future, as the move from quantitative easing to quantitative tightening is just underway.

Why is this macro view important? Because it sets the stage for corporate performance, but also perhaps more importantly market leadership. We believe the environment has changed enough that market leadership will be broader in the coming years as compared to the pre-pandemic era.

We look to previous central bank tightening cycles for some perspective. Our analysis shows that post the peak of prior tightening cycles, inflation remains sticky, persisting up to two years, corporate earnings growth recedes, and valuation remains a dominant factor. This is likely to be the case for the intermediate-term investing period.

Despite this backdrop, we still believe companies that persistently out-earn their cost of capital, grow their asset bases with high returns on invested capital, and innovate to solve customer needs will be attractive investments. But as we experienced post the dot-com bubble, the market needs to recalibrate expectations. We have experienced the first phase of this in 2022 but expect that it could take the next few years for this to fully materialize.

We think diversity of growth, industries, and business models at appropriate levels of valuation will make for optimal portfolio construction and investment returns. This is different than most of the 2010's, where concentrated investment strategies optimized for maximization of expected growth, in a small number of industries, with in many cases similar business models outperformed massively. We have seen these before, the Nifty Fifty of the 1970's and the tech bubble of the 1990s.

Each of these periods were symbolized by concentration of market leadership and a narrowness of what was favored—at the extreme expense of almost everything else. This really isn't reflective of longer-term market environments characterized by much more breadth and diversity in both the real economy and the markets.

Looking forward, we believe there should be opportunities for growth equities from numerous sources. Marginal changes to growth rates, in both directions, will likely drive investment performance. Companies with superior capital allocation strategies should prove to be attractive. We believe the delivery of cash flows will be favored over promise of growth, in other words, lower versus longer duration. Quality, cash flows, and predictability will likely be favored. "Old economy cyclicals" that were left for dead (commodities, financials) may continue their resurrection.

As growth equity investors for now close to three decades, we welcome this shift back to "normal" as breadth and diversity of investment ideas have been a hallmark of our success.



INVESTMENT PERFORMANCE (AS OF 12/31/22)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 10/15/07)	10.23%	-29.28%	-29.28%	2.88%	5.73%	8.49%
Class N (SI: 10/15/07)	10.16%	-29.49%	-29.49%	2.62%	5.47%	8.20%
MSCI All Country World IMI Index (net)	9.84%	-18.40%	-18.40%	3.89%	4.96%	7.94%

**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](http://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.***

Distributed by William Blair & Company, L.L.C., member FINRA/SIPC

Copyright © William Blair & Company, L.L.C. "William Blair" is a registered trademark of William Blair & Company, L.L.C.

**NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE**