William Blair

William Blair Small-Mid Cap Growth Fund
Fund Manager Commentary

Market Overview

U.S. equity indices were broadly positive during the fourth quarter. Together with negative returns in the three prior quarters, U.S. equities still ended the year in substantially negative territory as 2022 marked the worst year since 2008 for the S&P 500 Index.

During the first half of the year, the market was largely dominated by elevated inflation and monetary tightening by the Federal Open Market Committee (FOMC) which broadly pressured equity valuations. Valuation compression associated with higher rates was fairly indiscriminate and, on a relative basis, benefited the least expensive, and in some cases lower quality, equities most. In March, the FOMC implemented the first increase of the target federal funds rate in this cycle. With record-high gasoline prices, elevated mortgage rates, lower asset prices and higher food costs, consumer sentiment weakened, as did other economic data points. At the same time, the labor market and corporate earnings remained resilient.

Mid-year, a brief equity market rally was fueled by optimism that inflation would moderate, requiring fewer rate increases by the Fed. This sentiment faded, along with stock prices, after the Fed reiterated its priority was to tame inflation, potentially at the expense of economic growth.

U.S. equity indices recovered somewhat in the fourth quarter as investors responded positively to moderating inflation. The FOMC continued to act aggressively in the quarter and raised the target federal funds rate by 125 basis points, for a total of 425 basis points in 2022. After rising throughout the year, 10-year Treasury bond yields peaked in late October, offering a reprieve to pressured valuations. U.S. corporate earnings remained resilient, though forward estimates softened, and management commentary generally reflected considerable uncertainty looking ahead.

Fund Performance

The William Blair Small-Mid Cap Growth Fund (Class N shares) outperformed its benchmark, the Russell 2500 Growth index, during the fourth quarter. The portfolio materially outperformed the Russell 2500 Growth benchmark in the fourth quarter, driven by a combination of style factors and stock-specific dynamics. From a style perspective, our typical underweight to companies without earnings was a tailwind. From a sector perspective, Health Care, including our positions in ABIOMED and Horizon Therapeutics, and Consumer, including our position in Burlington Stores, were positive relative contributors. ABIOMED and Horizon Therapeutics both announced that they had agreed to be acquired for significant premiums in the quarter. Axon, a leading provider of law enforcement technology, reported robust revenue results, driven by strong demand and growth across business segments. Other individual contributors included Axon Enterprise (Industrials) and TechnipFMC (Energy). Our top individual detractors included Chart Industries (Industrials), Advanced Drainage Systems (Industrials), Wolfspeed (Information Technology), Cameco (Energy) and Alarm.com (Information Technology). Chart Industries is a leading global manufacturer of highly engineered cryogenic equipment for liquified natural gas and other industrial gases. Shares were pressured by concern regarding the company’s post-deal leverage position related to a forthcoming acquisition. Advanced Drainage Systems, North America's largest producer of high-density polyethylene (HDPE) pipe, reported lower-than-expected earnings during the quarter and lowered revenue guidance.

The portfolio outperformed its benchmark in the full-year period, driven by a combination of style factors and stock-specific dynamics. From a style perspective, our typical underweight to companies without earnings was a tailwind. However, while quality factors did not provide their typical down-market benefit during the market selloff in the first nine months of the year, this dynamic began to change in the fourth

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

Company	*% of Fund*
BWX Technologies, Inc.	2.9
Axon Enterprise, Inc.	2.5
Builders FirstSource, Inc.	2.4
Chemed Corporation	2.3
Performance Food Group Co.	2.2
Penumbra, Inc.	2.1
Encompass Health Corporation	2.1
National Vision Holdings, Inc.	2.0
Crown Holdings, Inc.	2.0
Euronet Worldwide, Inc.	2.0
Total Top 10	**22.5**

[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.

quarter as recession concerns shifted the focus towards companies that can continue to grow earnings in a more difficult environment. From a sector perspective, Health Care, including our position in Acadia Healthcare, and Energy, including our position in Denbury, were positive relative contributors. Shares of behavioral health company Acadia Healthcare advanced during the year, driven by strong demand, diversification across services and geographies and effective execution. Other top individual contributors included BWX Technologies (Industrials), Axon Enterprise (Industrials) and Performance Food Group (Consumer Staples). BWX Technologies, the sole-source provider of propulsion systems for the U.S. Navy, reported solid earnings results, as well as continued progress in the medical isotopes business. Our top individual detractors included Trex Company (Industrials), Azenta (Health Care) and Cable One (Communication Services). Shares of Trex, the industry leader in composite residential decking, were pressured due to lower-than-expected revenue in the second half of 2022 due to excess inventory and slowing demand. From a sector perspective, Consumer Discretionary, including our position in Revolve, and Information Technology, including our position in Coupa, detracted from relative returns. Elevated shipping rates and concerns around the health of the consumer weighed on shares of online fashion retailer Revolve Group.

Outlook

As we look forward to 2023, there are indications that higher quality investments should fare better in the coming year. Investors expect interest rates to continue to rise, albeit at a slower pace than in 2022, assuming inflation continues to moderate. We believe the majority of multiple compression from rising interest rates should already be embedded in stocks. In contrast to 2022, market performance in 2023 will likely be tied more closely to fundamentals than valuation differences.

Given the lagged impact, the effects of interest rate increases will likely have a more meaningful impact on the U.S. economy in 2023. A slowing economy and generally weaker demand relative to this past year may necessitate costs come into equilibrium with slower revenue growth. This implies risk to corporate earnings. Moreover, as an era of near-zero rates ends, capital sources for more speculative equities are likely to diminish, focusing more on near-term fundamentals.

Quality companies, which have the financial independence to continue to invest in their operations and the business model flexibility to adjust quickly in a dynamic environment, have become increasingly attractive investment opportunities against this backdrop. Pricing flexibility, for example, will be critical if inflationary pressures from labor and materials persist and overall demand weakens. This scenario would likely cause pressure on margins and earnings disappointments for the average company. Companies with strong management teams, superior business models and solid financials would be in a better position to navigate such headwinds. In addition, higher quality investments did not materially outperform during the sell-off in 2022, resulting in compelling valuations for these businesses as we look ahead.

INVESTMENT PERFORMANCE (AS OF 12/31/22)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 12/29/03)	8.97%	-22.92%	-22.92%	3.46%	7.24%	12.16%
Class N (SI: 12/29/03)	8.92%	-23.11%	-23.11%	3.20%	6.97%	11.87%
Russell 2500™ Growth Index	4.72%	-26.21%	-26.21%	2.88%	5.97%	10.62%

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	1.16%	1.10%
Class N	1.43%	1.35%

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 invests most of its assets in equity securities of small cap and mid cap domestic growth companies where the primary risk is that the value of the equity securities it holds might decrease in response to the activities of those companies or market and economic conditions. Individual securities may not perform as expected or a fund used by the Adviser may fail to produce its intended result. Investing in small and medium capitalization companies involves special risks, including higher volatility and lower liquidity. Small and mid-cap stocks are also more sensitive to purchase/sale transactions and changes in the issuer's financial condition. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. Diversification does not ensure against loss The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell 2500 Growth Index measures the performance of those Russell 2500 companies with above 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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