William Blair

William Blair International 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 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.

Top 10 Holdings[1] as of 12/31/2022

Company	*% of Fund*
AstraZeneca PLC	3.0
Canadian Pacific Railway Limited	3.0
Compass Group PLC	2.9
Reliance Industries Limited	2.8
LVMH Moet Hennessy-Louis Vuitton SE	2.8
VINCI SA	2.7
Novo Nordisk A/S	2.6
Tenaris S.A.	2.6
Zurich Insurance Group Ltd	2.6
Amadeus IT Group, S.A.	2.4
Total Top 10	**27.4**

Fund Performance

The William Blair International Leaders Fund (Class N shares) underperformed its benchmark, the MSCI ACWI ex US IMI, during the fourth quarter. Underperformance versus the MSCI ACWI ex-U.S. IMI index during the quarter was primarily driven

[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.

by negative stock selection across most sectors. The information technology and consumer discretionary sectors were the largest detractors from relative returns.

Within the information technology sector, Atlassian was the largest source of underperformance. 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.

Within consumer discretionary, Aristocrat Leisure and Dollarama were the primary drivers of underperformance. Aristocrat is the largest global manufacturer and operator of land-based gaming machines. It expanded its market into online gaming in 2018 but remains primarily land-based. While it's R&D-driven product offering in land-based casinos had historically been protected from online competition, the deregulation of gaming in the United States has reduced casino traffic and diminished Aristocrat's competitive advantage. As a potential U.S. recession would further pressure earnings, the position size was reduced meaningfully in the quarter. Dollarama is the leading Canadian value retailer with over 1,400 stores. Its differentiated retail concept appeals to a broad customer base as its direct sourcing and private label focus enable low-price leadership, while its national scale offers proximity and convenience. While it has been a strong performer over the course of 2022, it's defensive characteristics and premium valuation were not rewarded in the fourth quarter.

Partially offsetting these effects was an overweight to Europe ex-U.K., and an overweight to, and strong selection within the industrials sector. Luxembourg based Tenaris, which is a global leader in seamless pipe used for drilling oil and gas wells, detracted from performance within the energy sector. The energy cycle continues to unfold positively for Tenaris with energy pipe remaining the most favorable part of the global oilfield service market as higher commodity prices drive increased deep-water offshore capacity investment. The position was increased in the quarter.

Within industrials, Airbus boosted relative performance. Despite a challenging supply chain environment, as demand recovers faster than anticipated, we believe Airbus is in a strong position to capitalize on this recovery with a stronger competitive position due to having both the best product in the attractive narrow body segment and a lower cost base. Product transitions to the next generation of aircrafts that have pressured earnings and cash flows at the company over the last several years have peaked, leaving the company in a favorable position where investment is moderating and profitability appears poised to improve.

Positioning

For the period, consumer discretionary exposure was increased through the purchase of China Tourism Group and energy exposure was increased through a purchase of Equinor. China Tourism is a high-quality operator with the only nationwide license in all channels of the fast-growing duty-free shopping industry in China. It operates traditional airport locations as well as Hainan offshore, downtown outbound, and online duty-free shopping. As China reopens to international travel and exits its zero-COVID policy, travel demand is expected to increase, driving revenue for duty free shopping. Equinor is a Norwegian oil and gas producer, with more than 95% of the company's earnings stemming from upstream E&P activity where the production mix is tilted towards natural gas. Equinor has a low-cost resource base that has enabled them to remain profitable through cycles. Through their focus on offshore oil and gas development they have been able to amass a strong skill set, becoming a leader in terms of cost improvements and project selection. We believe Equinor is well positioned to benefit from supply-side tightness in oil and gas markets over the next several years and has demonstrated a thoughtful approach to the energy transition.

The increase to the consumer discretionary and energy sectors was primarily offset by reducing utilities exposure through the sale of Orsted. Orsted is Denmark's largest utility and the world's leading developer of offshore wind farms. The company faces an increasingly uncertain regulatory environment in Europe as energy prices have increased meaningfully, in tandem with organizational restructuring and changes in upper management roles that have increased the range of potential returns, it was sold to fund higher conviction holdings.

From a geographic perspective, notable adjustments were minimal with the largest changes being a reduction in Asia ex Japan, offset by an increase to Europe ex U.K., primarily driven by market performance. The portfolio's weighting in Emerging Markets increased slightly on additions to Emerging Asia but remain underweight at roughly 12% at the end of the period, up 2% from the beginning of the period.

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 [1]
Class I (SI: 08/16/12)	13.63%	-28.55%	-28.55%	-0.07%	2.86%	6.45%
Class N (SI: 08/16/12)	13.59%	-28.70%	-28.70%	-0.29%	2.61%	6.19%
MSCI All Country World ex-U.S. IMI Index (net)	14.15%	-16.58%	-16.58%	0.20%	0.85%	3.98%

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.

[1]Class I and Class N inception date: 8/16/2012.

EXPENSE RATIOS

	Gross Expense	Net Expense
Class I	0.99%	0.90%
Class N	1.30%	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. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. Because the Fund may focus its investments in a limited number of securities, its performance may be more volatile than a fund that invests in a greater number of securities. International investing involves special risk considerations, including currency fluctuations, lower liquidity, and economic and political risk. Investing in emerging markets can increase these risks, including higher volatility and lower liquidity. Investing in smaller 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 MSCI All Country World ex-U.S. 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, excluding the United States. 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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