William Blair

First Quarter 2023

William Blair International Small Cap Growth Fund
Fund Manager Commentary

Market Review

Global equities advanced in the first quarter (the MSCI ACWI IMI returned +6.95% for the quarter in USD terms), despite a volatile period amid turmoil in the banking industry. From a global sector perspective, information technology and communication services rallied during the period (+19.97% and +16.50%, respectively, as measured by the MSCI ACWI IMI index), while energy lagged on weaker energy prices (-3.24% as measured by the MSCI ACWI IMI index). Growth equities outperformed value-oriented equities (the MSCI ACWI IMI Growth returned +12.95% for the quarter, while the MSCI ACWI IMI Value returned +1.30%) as the concerns over banking contagion and resulting drop in bond yields caused a shift in market leadership toward growth segments of the market.

U.S. equities advanced during the period (+7.21% for the quarter as measured by the MSCI USA IMI) propelled primarily by technology stocks, while financials remained under pressure. With a turbulent quarter that stemmed from the demise of Silicon Valley Bank, investor sentiment was boosted by the swift coordinated actions of the Federal Reserve and central banks to help restore confidence in the banking system, coupled with hopes that the Federal Reserve could ease monetary policy tightening earlier than anticipated as a result of the financial instability and potential impact to the U.S. economy. While the Fed further slowed the pace of rate hikes to 25 basis points, Powell flagged the need to do more work to combat inflationary pressures, reiterated the higher-for-longer messaging, and noted that the labor market remains too tight.

European equities outperformed global markets for the quarter (+10.24% for the quarter as measured by the MSCI Europe IMI). While the ECB's interest rate hike of 50 basis points was higher than expectations given the uncertainty after the collapse of Silicon Valley Bank, European stock markets rallied on President Lagarde signaling that the ECB would be cautious about further rate increases. The European banking sector sold off during March following UBS's acquisition of Credit Suisse. The Swiss regulator's decision to write down Credit Suisse's additional tier 1 bonds also sparked a decline in the banking sector. Within the U.K., equities advanced (+5.89% for the quarter as measured by the MSCI United Kingdom IMI) after GDP showed a 0.1% expansion in the fourth quarter, narrowly avoiding recession. Similarly, Europe ex-U.K. advanced (+11.63% for the quarter as measured by the MSCI Europe ex-UK IMI), as Euro area CPI plunged to 6.9% in March, down from 8.5% in the previous month.

Emerging markets gained (+3.94% for the quarter as measured by the MSCI EM IMI index) with mixed performance across regions. Within Asia, Chinese equities advanced (+4.32% for the quarter as measured by the MSCI China IMI index) on continued momentum in its economic recovery in March, as the non-manufacturing PMI rose to 58.2 alongside a notable increase in activity in the construction sector. Taiwan and Korea were the strongest contributors to performance within EM Asia, on a relative basis (+14.88% and +10.35%, respectively as measured by MSCI Taiwan IMI and MSCI Korea IMI). Similarly, Latin America returns gained (+4.12% for the quarter as measured by the MSCI EM Latin America IMI), driven primarily by strength in Mexico (+20.47% for the quarter as measured by MSCI Mexico IMI). EMEA declined (-1.17% for the quarter as measured by the MSCI EM EMEA IMI) stemming from broad weakness across countries, particularly Turkey (-12.56% during the quarter as measured by MSCI Turkey IMI).

Top 10 Holdings[1] as of 3/31/2023

Company	*% of Fund*
Grupo Aeroportuario del Centro Norte	2.2
TechnoPro Holdings	1.9
BayCurrent Consulting	1.8
Ariston Holding N.V.	1.8
Melexis NV	1.7
Diploma PLC	1.7
Rotork P.L.C.	1.7
Be Semiconductor Industries N.V.	1.7
Beazley plc	1.6
Kardex Holding AG	1.6
Total Top 10	**17.7**

Fund Performance

The William Blair International Small Cap Growth Fund (Class N shares) outperformed its benchmark, the MSCI ACWI ex US Small Cap index (net), during the first quarter. The International Small Cap Growth strategy outperformed the MSCI ACWI ex U.S. Small Cap Index (net) in the first quarter, driven by favorable allocation effects and positive stock selection across most sectors and regions.

[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.

Industrials stock selection was bolstered by Grupo Aeroportuario Del Centro Norte (OMA), the leading high-quality airport operator in Mexico. OMA has multiple avenues to enhance profitability relative to peers including adding non-aeronautical sources of revenue and increasing international traffic through its airports. Investments in solar parks near airports have enabled OMA to reduce energy costs as the business faces inflationary pressures. The share price strengthened after OMA reported solid fourth-quarter results with a beat on revenue and adjusted EBITDA as the company continues to benefit from nearshoring trends and high margins despite inflationary pressures.

BayCurrent Consulting also drove outperformance within industrials. BayCurrent is an information technology consulting business that differentiates itself from the broader market as a brand leader and localized solution that executes better than its peers. Supportive Japanese government policy, favorable labor demographics (by 2030, almost one-third of the population will be age 65 and over), early-stage penetration of software, and the impact of COVID accelerated demand for digitalization, driving the need for IT consulting. BayCurrent has implemented a process to increase the number of consultants through better recruiting, hiring, and training practices, creating a strong pipeline of talent. The share price advanced on solid quarterly results driven by strength in revenue growth and profitability supported by stronger hiring, lower recruitment costs, and increased unit prices.

Partially offsetting outperformance was an underweight allocation to materials coupled with weaker stock selection within financials and consumer staples. Within financials, India-based AU Small Finance Bank was the largest detractor. AU's structural growth outlook is attractive given low banking penetration, exposure to an underserved market, and rising incomes. Underwriting expertise is critical, as most AU customers are self-employed with minimum or no credit history. Management has maintained pristine asset quality through cycles demonstrating capabilities to assess repayment capacity and solid collection efficiency.

Consumer staples weakness was primarily due to ChaCha Foods within China. As one of the top players in the structurally growing snack nuts and seeds industry in China, ChaCha Foods has a 50% market share and an 8% market share in the daily nuts market. With its broad offerings in sunflower seeds and daily nuts, ChaCha is well positioned in the fast-growing seeds/nuts segment of China's snack market in our view. ChaCha has a strong brand, and the company should benefit from the long-term trend in China toward increasing demand for higher-quality, healthier, and more flavorful food products. ChaCha is also benefiting from supportive government policy encouraging more consumption of seed/nut products for a healthy diet. The share price continued to soften following second-quarter results as margin pressure weighed on earnings. Gross profit margin was lower than expected primarily due to higher auxiliary material costs (oil, sugar, packaging) and higher energy and logistics costs.

Positioning

During the quarter, industrials exposure increased through the purchase of Boyd Group. Boyd Group is one of the leading players in the fragmented auto collision repair market. The company's competitive advantages are centered around scale and operating expertise. Boyd is the second largest player in the market and its scale provides significant advantages over smaller MSOs and mom-and-pop operations. The company has its own best practices model, which has a track record of delivering faster turnaround times and improved returns. This change was offset primarily by a reduction to communication services through the liquidation of Info Edge India. Info Edge is an online leader in the Indian classifieds sector with high market share and profitability in the core job classifieds business, duopoly share in real estate, and a loss leader in online matrimony. We exited Info Edge on slower growth expectations within the hiring segment of the business and higher competition within the real estate segment. From a geographic perspective, notable adjustments were an increase to Europe ex-U.K., offset by a decrease to emerging Asia. The portfolio's weighting in emerging markets approximated 24.6% at the end of the period, down from 25.7% on December 31, 2022.

Outlook

The collapse of Silicon Valley Bank and Credit Suisse's demise have exposed some of the feared risks related to the severity of central banks' monetary tightening. Despite U.S. regional banks still facing headwinds and signs of stress in the system not fully subsided, we do not believe that full contagion across the banking sector is a likely outcome. We are, however, monitoring the private debt and commercial real estate markets for signs of systemic risk.

As we settle into the second quarter of 2023, we reassess our projections for the remainder of the year and analyze how these implications will affect our outlook on risks of recession, central banks' likelihood to pivot away from restrictive monetary policy sooner than expected, and revised corporate earnings expectations.

Despite the instability in the financial sector, the Federal Reserve and global central banks remain vigilant in their fight against inflation, as evidenced by the ECB's and U.S. Fed's further rate increases in March. We believe the Fed will be reluctant to move back on its monetary policy settings by lowering interest rates, however that does not mean it will not provide liquidity, which we have seen over the last several weeks.

In this tighter economic environment, the likelihood of recession is increasing. Banking stress is unambiguously negative because it creates difficulties in lending to small and midsize companies, which tend to utilize smaller banks due to the ease of access to credit as opposed to larger banks. In the current environment, the balance sheets of many regional banks are suffering from the mismatch of assets and liabilities.

As long as this mismatch persists, we can expect to see a curtailing of lending and other forms of credit activity, which will dampen growth of regional and local economies.

As a result, we are likely to see a deceleration in economic activity (approximately 1% of GDP growth). This slowdown in economic growth will also have downward pressure on corporate earnings. Our base case assumed a deceleration in corporate earnings through third quarter and we now expect additional downward pressure, how far it extends toward the end of the year we believe is still too early to tell. Consensus for 2023 corporate profit growth expectations now stands at a touch below +2%, down from about +10% one year ago.

Despite lowering expectations of economic and corporate profit growth, earnings multiples for the most part have expanded this year. This is a bit of a surprise to us, and likely due to the assumption that real rates and inflation have peaked. We would not expect valuations to further rerate materially until there is some confidence of at what level growth troughs.

We also think it is relevant to highlight China given its earlier-than-expected reopening during the first quarter. While the reopening brought renewed optimism and the beginning phases of recovery, the pace of growth could be slow in the near term given the time needed to repair consumer confidence, which dropped to a 20-year low in late December. The government continues to deliver supportive yet measured initiatives on both fiscal and monetary fronts to stimulate the economy, including stabilizing the property market (which fell 30%-40% last year) while considerate of persistent structural issues.

The government is also keen to support consumption and youth employment, where unemployment rates went up substantially last year to 20% versus 5-6% for the general population due to covid lockdowns and internet industry regulations. Recent messaging has also indicated a boost in supportive measures in the private sectors and the platform economy (signaling the regulatory measures are easing and stabilizing) and continue to push for technology advancement and energy transition. Additionally, the excess savings in China over the last two to three years should support the recovery of consumption, the property market and investment.

While U.S.-China relations and geopolitical risks have not abated and continue to weigh on market valuation, policy support, a stabilizing regulatory environment, and the potential for earnings recovery due to the reopening could be supportive for investors in 2023.

As previously discussed, inflation and rates have shifted upward, and the forces that caused this may be beyond just this current pandemic-influenced economic cycle. We believe the environment has changed enough that market leadership will be broader in the coming years as compared to the pre-pandemic era. Our focus remains to identify a diversity of mis-priced value-creating companies across the wide array of our opportunity set.

INVESTMENT PERFORMANCE (AS OF 3/31/23)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 11/01/05)	7.25%	7.25%	-12.13%	10.09%	0.45%	4.31%
Class N (SI: 11/01/05)	7.08%	7.08%	-12.41%	9.75%	0.17%	4.01%
MSCI AC World ex-US Small Cap Index (net)	4.70%	4.70%	-10.37%	15.04%	1.67%	5.06%

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
Class I	1.19%
Class N	1.46%

Expenses shown are as of the most recent prospectus.

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. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. Investing in emerging markets can increase these risks, including higher volatility and lower liquidity. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. Diversification does not ensure against loss.

The Morgan Stanley Capital International (MSCI) All Country World Ex-U.S. Small Cap Index (net) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of small capitalization 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.

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