

William Blair Small-Mid Cap Core Fund Fund Manager Commentary

Market Overview

Following a difficult year for investors, 2023 got off to a more positive start as most U.S. equity indices advanced during the first quarter.

To start the year, U.S. equities moved higher as slowing inflation and resilient employment data helped fuel investor hopes of a soft landing. However, the collapse of Silicon Valley Bank (SVB) and related events caused equities to dip in March. Government bonds rallied sharply as investors questioned the soundness of smaller banks and factored in a possible pause in Federal Reserve (Fed) tightening.

The Federal Open Market Committee (FOMC) increased the target federal funds rate by 25 basis points in both February and March. In response to the SVB bankruptcy and related events, the Fed expressed confidence in the resilience of the U.S. banking system. The Fed signaled it has likely moved closer to the end of the tightening cycle supported by cooling inflation data during the quarter. The February Consumer Price Index (CPI) report showed inflation fell to 6.0% year-on-year, the eighth consecutive monthly decline from its 8.9% peak in June.

Despite interest rate headwinds, the job market remained strong but the mix of jobs is changing. In the first two months of 2023, notable job gains occurred in leisure, hospitality, retail trade, government and health care. Employment declined in information technology, transportation and warehousing. The unemployment rate remained near its historical low.

Although equities generally finished the first quarter higher, concerns about the economy and potential fallout from the regional banking issues remained at the forefront for investors.

Fund Performance

The William Blair Small-Mid Cap Core Fund (Class I shares) underperformed its benchmark, the Russell 2500 index, during the first quarter. The portfolio performed approximately in-line with the Russell 2500 Index during the first quarter driven by stock specific dynamics. Top detractors from performance included our positions in National Vision Holdings (Consumer Discretionary), Western Alliance Bancorp (Financials) and Columbia Banking System (Financials). National Vision Holdings, the largest value optical retailer in the U.S., was negatively impacted by a shortage in optometrists, resulting in a lack of available exam slots which is expected to pressure revenue and margins in the near term. Western Alliance is a regional bank headquartered in Phoenix, Arizona. Western Alliance's deposit exposure to venture capital clients was much smaller than that of SVB Financial, but there was concern these deposits could leave and drive a broader liquidation of assets.

Top 10 Holdings¹ as of 3/31/23

<i>Company</i>	<i>% of Fund</i>
BWX Technologies, Inc.	2.5
Axon Enterprise, Inc.	2.5
Builders FirstSource, Inc.	2.3
Cameco Corp.	2.3
Casella Waste Systems, Inc.	2.2
Merit Medical Systems, Inc.	2.1
Sylvamo Corp.	2.0
Chemed Corp.	1.9
Encompass Health Corp.	1.9
Verra Mobility Corp.	1.9
Total Top 10	21.6

While we did not trim before the stock fell, we trimmed our position after a strong rebound made the risk/reward less compelling given this risk to deposits. Stock selection in Health Care, including our positions in Owens & Minor and Halozyme Therapeutics, also detracted from relative returns. Stock selection in Industrials, including our positions in Axon Enterprise and Builders FirstSource, added value during the quarter. Shares of Axon, a leading provider of law enforcement technology, advanced during the quarter as demand trends across the public safety environment remained strong and the company reported robust revenue growth. Builders FirstSource, a materials manufacturer and distributor for home builders, benefited from margin strength driven by continued operational efficiency. Other top contributors were Inter Parfums (Consumer Staples), Skyline Champion (Consumer Discretionary) and Certara (Health Care).

Outlook

The long-term effects from the regional banking issues that arose in March create uncertainty as we look forward. Potentially more restrictive bank lending standards and the lagged impact of the Federal Reserve's tightening cycle could

¹Listed 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.

dampen economic growth ahead. Aggregate demand may weaken and businesses may slow fixed investments as the cumulative effects of tighter financial conditions take hold. While the odds of an economic slowdown have increased, there are also counterbalances that could provide a ballast. Moderating inflation and wage growth could provide some relief for corporations and monetary policy could pose less of a headwind for stocks as the Federal Reserve has signaled we are close to peak rates.

Following an era of inexpensive capital for the last 10+ years, an environment of higher interest rates and higher inflation could result in a more challenging operating environment for businesses and a more discerning equity market landscape. A higher cost of borrowing should spur a rise in debt service costs and pressure corporate earnings. Companies with strong balance sheets, durable business models, sustainable cash flow and the ability to self-fund growth are likely to be uniquely positioned in this type of environment. We believe our philosophy of identifying durable businesses whose stocks present attractive risk/reward opportunities should serve us well in a variety of economic environments, as it has historically.



INVESTMENT PERFORMANCE (AS OF 3/31/23)

	QTR	YTD	1 Y	3 Y	5 Y	Since Incep.
Class I (SI: 10/1/19)	3.18%	3.18%	-10.86%	21.38%	--	9.99%
Russell 2500™ Index	3.39%	3.39%	-10.39%	19.42%	--	7.76%

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	1.25%	0.95%

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 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 strategy 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. 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™ Index measures the performance of the 2,500 smallest companies in the Russell 3000 Index, which represents approximately 19% of the total market capitalization of the Russell 3000 Index. 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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