William Blair

William Blair Mid Cap Value Fund
Fund Manager Commentary

Market Overview

In the 1st quarter of 2023, the equity markets demonstrated a clear preference for large growth companies. While this trend is most evident by the leading 17% return of the Nasdaq Composite Index, similar observations can be made in other indexes. For example, the Russell Mid Cap Growth Index increased 9.1% while the Russell Mid Cap Value Index (the "Benchmark") increased only 1.3%. While the S&P500 Index gained 7% during the quarter, the stocks of larger technology companies significantly outgrew this return. FAANG (Facebook, Apple, Amazon, Netflix, Google) stocks surged, and the shares of Nvidia and Tesla skyrocketed up 90% and 68%, respectively. Although these trends were firmly established through the first two months of the quarter, they were exacerbated in March by the panic selling of cyclical and financial stocks and the buying of large-cap technology that ensued after the shocking failure of several leading banks (collectively referred to going forward as the "banking crisis").

Fund Performance

The William Blair Mid Cap Value Fund (the "Fund"), Class I, ended the quarter returning 0.87%, slightly trailing the Russell Midcap Value Benchmark.

The best performing sector in the quarter was Communication Services, which was driven by a 59% gain in entertainment company Warner Brothers Discovery Inc. The Company's restructuring initiatives have begun to show promise, and, importantly, lead to improved cash flow and debt reduction. We believe management's action was also given an indirect vote of confidence by the much larger and more visible Walt Disney Company, which has embarked on a similar strategy, albeit 18 months later.

The Fund's Industrial holdings finished the quarter up 7% and were slightly positive relative to the benchmark, despite the noteworthy reversal following the Banking Crisis. For the full quarter, machinery was the best subsector, led by top contributors Timken Company and Snap-on Inc. The electrical equipment subsector saw a nice rebound from last quarter's weakness. We took advantage of this strength to trim the Fund's position in Regal Rexnord Corporation due to our concern over the debt the Company has added in conjunction with its recent acquisition of Altra Industrial Motion Corp.

While the Consumer Discretionary sector was essentially in-line overall with the Benchmark, many of the Fund's holdings were strong contributors. Apparel company Ralph Lauren Corp. and leisure products company Brunswick Corp. were both strong performers and collectively added 35bps of positive contribution to the Fund. Homebuilder Toll Brothers Inc. was a standout climbing over 20% and added 36bps of relative performance. Somewhat counterintuitively, household durable companies Mohawk Industries ("Mohawk") and Whirlpool Corp. did not share the same performance and were slight detractors. It should be noted that, during the quarter, we trimmed Mohawk in favor of more attractive relative opportunities. We also initiated a new position in Advance Auto Parts, Inc., which is a leading retailer of aftermarket automotive supplies. Much of the positive performance in the quarter was offset by an underweight position of the Hotel, Restaurant, and Leisure sector. Despite the short-term drag on performance, we remain generally weary of this sector as many of these companies have only recently become profitable and are highly levered.

The Energy and Financial sectors were also essentially in-line with the Benchmark. Within energy, a positive contribution from an underweight exposure to equipment and midstream was slightly offset by exploration and production ("E&P") stock selection, notably weakness in APA Corp which had the highest exposure to the decline in commodity prices. Within Financials, insurance was again a strong contributor as Arch Capital Group Ltd. continued to benefit from "hard" specialty and reinsurance markets that allowed for price increases. This benefit was more than offset by weakness in the Consumer Finance subsector, and SLM Corp who raised concerns about deteriorating credit

Top 10 Holdings[1] as of 3/31/23

Company	*% of Fund*
Jabil Inc.	2.4
The Timken Company	2.3
Toll Brothers, Inc.	2.2
Knight-Swift Transportation Holdings Inc.	2.2
AGCO Corporation	2.2
Snap-on Incorporated	2.2
LKQ Corporation	2.2
Willis Towers Watson	2.0
Ingredion Incorporated	2.0
Molson Coors Beverage	2.0
Total Top 10	**21.7**

[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.

quality when it noted that delinquencies and provisions for loan losses both increased.

The slight outperformance of bank holdings merits additional discussion. Fortunately, the Fund had no exposure to Silicon Valley Bank and Signature Bank, both of whose failure eliminated shareholder equity, nor First Republic Bank whose stock decreased almost 90%. Collectively not owning these three stocks benefitted the Fund by 53 bps. The Fund was not unscathed, however, as holdings in Comerica Inc declined 40% and detracted 52 bps of relative performance. At the beginning of the crisis, we were aware of the bank's approximate 8% deposit concentration in the technology industry, but believed that it did not constitute significant risk, especially in comparison to other banks, some of whom had greater than 75% deposit concentration. We were further relieved when the United States Federal Reserve (the "Fed") and the Treasury Department (the "Treasury") took emergency actions to guarantee depositors of the failed banks and increase bank borrowing liquidity. The swift, significant, and counterintuitive sell-off of the stock following this announcement, however, eroded the confidence in our assumptions and suggested the market had much less conviction that the deposit base was not at serious risk. Given the speed at which this concern developed, the number of variables in question, we conceded that we could not accurately quantify the probability or magnitude of a potential issue. With such uncertainty we thought it was inappropriate to continue to hold the stock in the Fund and liquidated the position.

While the turbulence surrounding banks appears to have dissipated, at least for the moment, we generally remain cautious on the sector and are underweight. Prior to the financial crisis, we became concerned that earnings would be challenged by a combination: (i) peaking Net Interest Income Margin ("NIIM") as the Fed nears the end of it interest rate increase campaign; (ii) slowing loan growth as institutions reduce deposit growth to keep funding costs down; and (iii) a yet to materialize deterioration of credit quality. While we were already skeptical about the market value of assets held to maturity, recent concerns over assets held for sale was a new development and underscored our view of a quickly deteriorating landscape. However, as always, we are actively looking for high-quality assets that have been mistakenly valued in line with inferior peers, or the proverbial baby thrown out with the bathwater.

Outlook

While the job market, consumer spending and GDP have been resilient in the face of aggressive Fed tightening, there are signs that the economy is slowing. Fortunately, it appears that the Fed is near the end of its monetary tightening mission, although the path of inflation will be critical. With the extra tightening of financial conditions likely to result from the current banking turmoil, the odds of a recession have risen. Although cautious in our outlook, much of this is already reflected in the valuation of the Portfolio, which stands at an historically low 11.04 times next twelve months estimated earnings.

INVESTMENT PERFORMANCE (AS OF 3/31/23)

	Qtr	YTD	1 Y	3 Y	5 Y	10 Y	Since Incep.
Class I (SI: 3/16/22)	0.87%	0.87%	-8.70%	--	--	--	-6.05%
Russell Midcap® Value Index	1.32%	1.32%	-9.22%	--	--	--	-4.65%

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	1.11%	0.75%

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 4/30/24.

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. Investments in mid-cap companies involve greater risk than those in larger, more established companies, including higher volatility and lower liquidity. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. 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 Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. 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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