William Blair

First Quarter 2023

William Blair Emerging Markets ex China 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 3/31/23

Company	*% of Fund*
Taiwan Semiconductor Mfg. Co. Ltd.	12.7
Samsung Electronics Co.	6.6
PT Bank Central Asia	4.1
Reliance Industries Limited	3.2
HDFC Bank Limited	2.4
MercadoLibre, Inc.	2.1
PT Bank Rakyat Indonesia(Persero) Tbk	2.0
Wal-Mart de Mexico, S.A.B. de C.V.	2.0
Housing Development Finance Corp. Ltd.	1.6
Chailease Holding Company Limited	1.4
Total Top 10	**38.1**

Fund Performance

The William Blair Emerging Markets ex China Growth Fund (Class I) outperformed its benchmark, the MSCI Emerging Markets ex China IMI index, during the first quarter. First quarter outperformance vs MSCI Emerging Markets ex China IMI (net) was driven by positive stock selection effect within industrials, financials, and healthcare sectors coupled with overweighting to information technology and underweighting to utilities.

[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.

Within industrials, Grupo Aeroportuario Del Sureste, the operator of key airports in Mexico, including Cancun, was a notable contributor to relative results. The company enjoys a monopoly on traffic growth into its airports under a concession model that ends in 2048. The stock continued to strengthen on the back of solid operating performance amid solid traffic growth, domestically and internationally, bolstered by pent-up demand for leisure travel which has still room to grow from pre-pandemic levels.

Bdo Unibank, a Philippines bank, bolstered financials results. We believe BDO's large scale and geographic reach, leading market share in loans and deposits, lowest funding costs, and largest dataset of the banked population drive its competitive advantages. The stock climbed as the bank reported record high full year 2022 net income, exceeding consensus expectations, due to higher fees and trading income. We believe BDO is well positioned to benefit from the ongoing economic recovery and favorable rate expectations for 2023 driving acerating loan growth, net interest margin expansion, and lower provisioning.

Dr. Sulaiman Al Habib Medical, the largest private hospital chain in Saudi Arabia, was a notable contributor to healthcare performance. The company is a high-quality premium healthcare services provider in what we view as a structurally attractive market, given under penetration and chronic disease prevalence. Sulaiman delivered strong results in the fourth quarter as solid patient traffic in the hospitals, high occupancy rate combined with favorable case mix and high share of cash-pay patients led to robust growth and margin expansion.

Partially offsetting these positive effects was the negative stock selection within energy and materials. Energy relative performance was hampered by weak performance from Reliance Industries of India. We believe Reliance's transformation from an asset heavy, cyclical energy business to more diversified, end-consumer businesses with a large and expanding total addressable market will continue to drive strong growth and returns over the long term. The recent stock underperformance was driven by broad weakness in Indian equities, coupled with investor concerns about the company's increased capex and raising debt level as well as slower retail growth.

Chemical holdings, in particular, Fine Organic Industries, the largest manufacturer of oleochemical-based additives in India, was a notable detractor to relative performance within materials. Fine Organic Industries operating performance decelerated as weaker raw material prices impacted contract renewals.

Positioning

During the period, information technology and consumer discretionary weightings were increased.

Information technology weighting was boosted by addition to existing positions and new purchases of semiconductor names; Mediatek and ASPEED. Mediatek is a global leader in wireless IC design. The company has significantly narrowed the technological gap to Qualcomm and is gaining market share driven by design improvements, competitive cost position and localization trends. We believe it is well positioned to benefit from expected supply chain restocking and recovery in China smartphone demand. Aspeed is a Taiwanese fabless IC design company and niche dominator with 70% market share in baseboard management controllers (BMC). The core end market demand is driven by datacenters, cloud, and hyperscalers. We believe a total addressable market expansion will come from edge, switch, storage use cases as well as AI opportunity and video conference camera solutions. We expect the 2H23 earnings recovery to be a function of new server product launch driving incremental demand, higher ASPs, and mini-BMC shipments.

Within consumer discretionary, we purchased Naspers given the improved earnings outlook of Tencent with stabilized regulatory backdrop in China, potentially recovering online advertising industry post reopening compounded with the strong network effect of their platform which we believe has the potential to lead to sustained, high-margin incremental revenue capture above market growth. The combined, with moderate stock valuation underpin the investment thesis.

These increases were funded by reductions to financials, energy, and consumer staples. Financials weighting decreased via trims to existing holdings and liquidation of First Abu Dhabi Bank. We sold First Abu Dhabi Bank due to growing concerns about large M&A outside of core markets to support ambitious long-term growth targets. We believe this increases the bank's risk profile and would weigh on returns. Energy exposure decreased due to trims to Reliance Industries. Within consumer staples, we sold Tata Consumer Products, the multinational non-alcoholic beverage company with a leading market share in branded salts and tea in India. Management demonstrated strong operational execution over the last few years as it implemented a turnaround strategy with a strategic shift from international to domestic opportunity. Near term operating performance was disappointing mainly due to a decline in core India beverage business both terms of volume and sales.

From a geographic perspective, notable adjustments were increases to Taiwan and Korea weightings and reduction to India exposure.

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	Since Incep.
Class I (SI: 07/29/22)	5.10%	5.10%	--	--	--	-1.10%
MSCI Emerging Markets ex-China IMI Index (net)	3.79%	3.79%	--	--	--	2.27%

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	1.44%	0.99%

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 involves a high level of risk and may not be appropriate for everyone. You should only consider it for the aggressive portion of your portfolio. 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. Investing in securities of smaller companies tends to be more volatile and less liquid than securities of larger companies. International investing involves special risk considerations, including currency fluctuations, higher volatility, lower liquidity, economic and political risk. Investing in emerging markets can increase these risks. The securities of emerging market companies may be subject to greater volatility and less liquidity than companies in more developed markets. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Currency rates may fluctuate significantly over short periods of time and may reduce the returns of a portfolio.

The Morgan Stanley Capital International (MSCI) Emerging Markets ex-China IMI Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets excluding China.

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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