

## William Blair Small Cap Growth 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 Cap Growth Fund (Class N shares) outperformed its benchmark, the Russell 2000 Growth index, during the first quarter. During the quarter, the portfolio outperformed the Russell 2000 Growth index driven by stock specific dynamics. Stock selection in Information Technology and Energy were positive relative contributors to performance. Our top contributors included PDF Solutions (Information Technology), Orion Engineered Carbons (Materials), Certara (Health Care), Winmark (Consumer Discretionary) and Vertex (Information Technology). PDF Solutions, a seller of chip-level and software solutions to foundries and electronics manufacturers, benefited from increasing customer adoption and demand for process control tools. Orion Engineered Carbons, a leading producer of carbon black, reported quarterly results ahead of expectations and provided favorable 2023 guidance. Our top detractors included National Vision Holdings (Consumer Discretionary), PacWest Bancorp (Financials) and

### Top 10 Holdings<sup>1</sup> as of 3/31/23

<i>Company</i>	<i>% of Fund</i>
BWX Technologies, Inc.	2.5
The Brink's Co.	2.5
Casella Waste Systems, Inc.	2.4
WNS (Holdings) Ltd.	2.0
Albany International Corp.	1.8
Performance Food Group Company	1.8
Energy Recovery, Inc.	1.7
FirstService Corp.	1.7
Merit Medical Systems, Inc.	1.7
Mercury Systems, Inc.	1.7
<b>Total Top 10</b>	<b>19.8</b>

Albany International (Industrials). National Vision Holdings, the largest value optical retailer in the U.S., reported mixed quarterly results and provided disappointing 2023 guidance. Stock selection in Health Care, including our positions in Globus Medical and Veradigm, also detracted from relative returns. Globus Medical, a medical device company operating in the spinal product market, announced an agreement to merge with Nuvasive, a leader in spine technology innovation, which led to concerns around potential integration headwinds with the proposed merger.

### 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 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

<sup>1</sup>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.

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	10 Y
Class I (SI: 12/27/99)	6.60%	6.60%	-7.48%	20.61%	8.50%	12.01%
Class N (SI: 12/27/99)	6.58%	6.58%	-7.66%	20.33%	8.24%	11.73%
Russell 2000 <sup>®</sup> Growth Index	6.07%	6.07%	-10.60%	13.36%	4.26%	8.49%

**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](http://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%	--
Class N	1.56%	1.50%

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 domestic growth 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 fund used by the Adviser may fail to produce its intended result. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. Small cap stocks are also more sensitive to purchase/sale transactions and changes in the issuer's financial condition. These risks are intensified for investments in micro-cap companies. Individual securities may not perform as expected or a fund used by the Adviser may fail to produce its intended result. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell 2000 Growth Index is the Fund's primary benchmark and consists of small-capitalization companies with above average price-to-book ratios and forecasted growth rates. 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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