

# International Small Cap Growth Fund

*William Blair*

Portfolio Review

June 2018

Simon Fennell, Partner  
Andy G. Flynn, CFA, Partner  
Portfolio Managers

**Risks:**

The views expressed in this report and the information about the holdings are as of the date of this material, unless otherwise noted, and are subject to change. 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.

**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.

**Performance cited represents past performance. Past Performance does not guarantee future results and current performance may be lower or higher than the data quoted. Results shown are average annual returns, which 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 1-877-962-5247, 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.**

This content is for informational and educational purposes only and is 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.

Most recent month-end performance information for the Fund is available by visiting the William Blair Funds Web site at [www.williamblairfunds.com](http://www.williamblairfunds.com), or by calling the William Blair Funds at 1-800-742-7272.

Investing includes the risk of loss. Please carefully consider the Fund's investment objective, risks, charges, and expenses before investing. This and other information is contained in the Fund's prospectus, which you may obtain by calling 1-800-742-7272. Read it carefully before you invest or send money.

Copyright © 2018 William Blair & Company, L.L.C. "William Blair" is a registered trademark of William Blair & Company, L.L.C.

Distributed by William Blair & Company, L.L.C., member FINRA/SIPC.

**Market Review**

Global equity markets posted mixed results for the first half of 2018, buffeted by escalating trade tensions, the U.S. Federal Reserve's continued tightening bias and dollar strength. In contrast to the global synchronized expansion environment of 2017, equity performance in the first six months of 2018 reflected a growing divergence, with the U.S. economy, earnings and share prices maintaining positive momentum while the rest of the world rolled over.

The benign 2017 environment of low volatility and uninterrupted monthly gains abruptly reversed course in late January 2018, as worries about the extended bull market and narrowing leadership culminated in heavy selling pressure following reports that a handful of niche equity volatility-linked ETF products had suffered significant losses, stoking fears of broader risk contagion.

As the first half progressed, investors became increasingly concerned that the Trump administration's pursuit of protectionist measures would ignite a trade war with China and potentially derail the U.S. expansion. The slowing pace of economic activity in Europe combined with increased turbulence in emerging markets also weighed on investor sentiment.

U.S. equities extended their gains during the first half of 2018 and significantly outpaced non-U.S. markets, bolstered by strong corporate earnings and tax reform. From a market cap perspective, U.S. small caps outperformed their large cap counterparts by approximately 3.5% during the period, as measured by the MSCI U.S. Standard and Small Cap indices. In addition to being less exposed to trade disputes given lower overseas revenues, U.S. small caps were expected to benefit more from tax reform: according to Bloomberg, for the three years

ended December 2017, S&P SmallCap 600 Index companies had an average effective tax rate 4.3% higher than that of S&P 500 Index companies.

Non-U.S. developed market equity performance was hampered by negative returns in Europe amid softening economic data and renewed political turmoil in Italy. The euro depreciated approximately 3% versus the dollar in 1H18, reflecting these concerns in addition to expectations for prolonged monetary stimulus from the European Central Bank, which announced that interest rates would remain at record lows through the summer of 2019.

Harkening back to the 2013 taper tantrum episode, emerging markets equities and currencies were hit by a significant rise in investor outflows during the first half of the year. The stronger dollar and prospect of higher U.S. interest rates had a particularly detrimental effect on countries with larger current account deficits and dollar-denominated debt, including Argentina and Turkey.

Political uncertainty and a deteriorating economic growth outlook also weighed on emerging markets returns in the first half. Brazil's nationwide truckers' strike was projected to shave a full percentage point off 2018 GDP growth, threatening the country's nascent economic recovery and further clouding the reform outlook ahead of the presidential election this fall.

Although Chinese equities held up better than most emerging market countries for the six-month period, investors became increasingly wary of escalating trade tensions as the first wave of U.S. tariffs on \$34 billion of Chinese exports was scheduled to take effect on July 6.

Technology and energy were the top performing sectors on a global basis during 1H18, while telecom, financials and consumer staples underperformed. Within emerging markets, energy was the only sector in positive territory for the six-month period, benefiting from the rebound in oil prices.

### **Performance**

Second quarter underperformance of the International Small Cap Growth Fund (Class N) versus the MSCI ACWI ex US Small Cap (net) was driven by a combination of allocation and stock selection effects. An underweight allocation to Materials, coupled with weaker stock selection within the Industrials and Financials sectors hampered relative performance. Within the Industrials sector, Localiza Rent a Car detracted from relative returns. Localiza rents and sells used cars in Brazil and other Latin American countries. The company has reported strong earnings over the past five quarters, but the share price softened in Q1 due to broad Brazil market weakness. Nevertheless, we believe the company will continue to benefit from strong earnings momentum coupled with robust fundamentals, including structural competitive advantages versus peers. Grupo Supervielle weighed on relative results in the Financials sector. Grupo Supervielle is a universal financial services group located in Argentina that owns the fifth largest private bank in terms of assets. After a strong 2017, the share price corrected following a miss in 1Q18 earnings results mainly due to lower margins and higher provisions. Argentina risk aversion also weighed on the share price during the quarter.

Partially offsetting these effects was an overweight allocation to the UK, coupled with positive stock selection within the Materials and Information Technology sectors. Within Materials, Nissan Chemical Corp, a top producer of niche chemicals in Japan, contributed to relative returns. The company's recent growth has been driven by its innovative

product line including its agricultural chemicals segment, with products such as Fluralaner (a veterinary bulk pharmaceutical) and Roundup (a non-selective herbicide). We are also confident in the company's ability to navigate both short and long term end-market volatility, particularly with regards to consumer electronics/smartphones. Within IT, the overweighting and stock selection within IT Services companies also added to performance in the second quarter.

Six-month underperformance versus the MSCI ACWI ex US Small Cap (net) was similarly driven by a combination of allocation and stock selection effects. An underweight allocation to Real Estate, coupled with below average stock selection within the Consumer Discretionary and Energy sectors, hampered relative returns. Within the Consumer Discretionary sector, MGM China Holdings Ltd detracted from relative performance. MGM China is a leading developer, owner and operator of gaming and lodging resorts in the Greater China region. MGM China is among the most profitable major casino operators in Macau despite its relatively low market share. The share price dropped in later part of 1H18 along with other Macau-related names after weaker casino revenues for the month of May. Nevertheless, we believe the company will continue to benefit from its strong mass market exposure, differentiated property positioning and solid execution. Within Energy, Canada-based CES Energy Solutions Corp, a quickly growing, asset-light oil service company, was a detractor for the first half of the year. The company reported record high revenue, however, gross margin weakness amid rising input costs drove below-consensus EBITDA performance. While the operating environment was incrementally more challenging, we believe CES remains a compelling through-cycle investment, with positive leverage to ongoing activity recovery in North America.

Partially offsetting these effects was an underweight allocation to Canada coupled with above average stock selection within the

Consumer Staples and Materials sectors. Within Consumer Staples, beverage companies Fevertree Drinks and Royal Unibrew bolstered relative returns. Fevertree produces premium mixers, including tonic water, ginger beer, cola and lemonade. The company should experience rapid growth due its expanding geographic presence, increased product mix, and the trend towards premium spirits. Royal Unibrew, based in Denmark, benefited from strong 4Q17 earnings ahead of estimates. We believe the company is well positioned for future growth through a combination of organic growth (via distribution expansion and a wider product range) and small, bolt-on acquisitions to leverage established distribution and logistics networks.

From a positioning perspective during the second quarter, Financials exposure was reduced through the liquidations of Zenkoku Hoshō Co Ltd, Bank Negara Indonesia Persero and Cembra Money Bank. Industrials exposure was also reduced to an underweight position during the period. This was offset by an increase to Health Care exposure through the purchases of Swedish Orphan Biovitrum and Aplifon. Information Technology exposure was increased to a lesser extent, accomplished through a combination of new purchases and position additions. From a geographic perspective, notable adjustments were increases to Developed Europe/UK, offset by decreases to Japan and Emerging Markets. The portfolio's weighting in Emerging Markets approximated +18% at the end of the period, down from 22% at the beginning of the period.

### **Outlook**

There is now a great deal of uncertainty about how the recently announced trade tariffs will impact intermediate term economic activity. Despite some market skepticism, global growth remains broad based and robust as we head into the second half of 2018. While global manufacturing PMIs declined from unsustainably

elevated levels in February and March, the latest readings suggest that we are nearing the end of the in-cycle deceleration to levels in line with ongoing growth. Near-term economic fundamentals indicate that the current economic expansion has further to run. In times of economic expansion such as the current one, we expect companies to continue to post robust earnings growth. However, earnings growth cannot continue to accelerate at the same pace we experienced over the past several quarters, especially in the U.S., where acceleration has been quite pronounced. European corporates have also enjoyed relatively strong earnings growth, which is also likely to continue but at moderately slower rates in the near term.

While the underlying economy remains robust and economic indicators continue to signal positive momentum, escalating trade war rhetoric will likely have substantial consequences on market volatility, inflation, and growth dynamics over the coming quarters. As examples, tariffs on Canadian lumber are adding to higher costs for wood, which are fueling price increases of up to \$9,000 for a new single-family home, according to the National Association of Homebuilders. Elsewhere, prices of washing machines sold in the U.S. surged by nearly 8.5% this year – the first increase since 2012 – after the U.S. administration restricted imports earlier this year.

More broadly, some U.S. companies are reportedly using the threat of new tariffs as a reason to raise prices. In short, tariffs amount to either a tax on consumption or corporate margin deterioration if firms choose to absorb some portion of cost increases. In aggregate, it worsens the tradeoff between growth and inflation, and will likely lead to tighter monetary policy. Much of this has not played out yet, because the U.S. administration has moved only recently. However, these effects will begin to manifest themselves over the coming quarters, and it is quite possible that this will bring us closer to the end of the current economic expansion cycle.

Longer term, we fear the U.S. administration's unilateral view of trade policy is suggesting an end to the decades-long building of integrated global markets and supply chains. If the U.S. chooses to limit or regulate trade however it sees fit, regardless of what agreements it may have signed in the past, trade and investment will become more volatile and more politicized. Multinationals from around the world will be more inclined to disentangle their operations from the U.S. The impact of this will only be revealed gradually over the next several years but could imply meaningful changes to competition, quality, and innovation.

From a portfolio strategy perspective, we believe emerging markets (EMs) are susceptible to further downside volatility in the second half of 2018 amid persistent dollar strength as

interest rates and growth differentials continue to favor the U.S., and the Federal Reserve maintains its tightening bias. Positioning within our ACWI-oriented strategies has generally reflected our more cautious outlook, with reduced EM weightings in favor of increased developed market exposure, primarily in Europe. Within our dedicated EM strategies, we have maintained overweighted positions in China and India, and moderated exposures to Brazil and South Africa. Within China, our positioning continues to emphasize domestically-oriented consumer, healthcare and technology companies that we believe are well positioned to benefit from the economy's ongoing transition to a consumption and services-driven growth model.

|                              |                               | QTD   | YTD   | 2017 | 2016 |
|------------------------------|-------------------------------|-------|-------|------|------|
| Regions                      | <b>AC World (DM+EM)</b>       | 0.7   | -0.2  | 23.9 | 8.4  |
|                              | <b>Developed Markets (DM)</b> | 1.9   | 0.7   | 22.4 | 8.2  |
|                              | Pacific ex JP                 | 1.2   | -2.3  | 25.9 | 7.8  |
|                              | Japan                         | -2.9  | -1.9  | 25.3 | 3.2  |
|                              | Europe ex UK                  | -2.8  | -3.8  | 28.0 | -0.2 |
|                              | UK                            | 2.9   | -0.7  | 23.7 | -1.6 |
|                              | Canada                        | 4.9   | -3.0  | 15.6 | 25.4 |
|                              | USA                           | 3.8   | 3.1   | 20.6 | 12.0 |
|                              | <b>Emerging Markets (EM)</b>  | -8.0  | -6.9  | 36.8 | 9.9  |
|                              | Asia                          | -5.9  | -5.3  | 41.8 | 4.8  |
|                              | EMEA                          | -10.8 | -11.4 | 24.1 | 20.7 |
| Latin America                | -17.7                         | -11.5 | 24.8  | 30.3 |      |
| <b>Frontier Markets (FM)</b> | -13.8                         | -10.6 | 29.9  | 5.6  |      |
| Size                         | <b>Large Cap</b>              | 0.7   | -0.5  | 23.9 | 8.0  |
|                              | <b>Small Cap</b>              | 2.1   | 1.5   | 23.8 | 11.6 |
| Sectors                      | <b>Discretionary</b>          | 2.7   | 3.2   | 25.0 | 2.9  |
|                              | <b>Staples</b>                | -1.0  | -5.4  | 18.0 | 2.1  |
|                              | <b>Energy</b>                 | 10.7  | 6.1   | 5.2  | 28.4 |
|                              | <b>Financials</b>             | -5.1  | -5.9  | 23.1 | 11.2 |
|                              | <b>Healthcare</b>             | 3.1   | 3.0   | 22.0 | -6.7 |
|                              | <b>Industrials</b>            | -2.5  | -4.2  | 26.1 | 12.6 |
|                              | <b>IT</b>                     | 3.7   | 7.2   | 41.0 | 12.3 |
|                              | <b>Materials</b>              | 0.1   | -3.7  | 29.3 | 24.4 |
|                              | <b>Real Estate</b>            | 2.4   | -1.1  | 16.2 | 4.1  |
|                              | <b>Telecom Services</b>       | -4.1  | -9.3  | 8.2  | 4.9  |
|                              | <b>Utilities</b>              | 1.4   | -0.2  | 15.2 | 7.4  |
| Style                        | <b>Quality</b>                | 2.9   | 4.6   | 4.3  | 2.5  |
|                              | <b>Valuation</b>              | -3.0  | -1.8  | 5.2  | 14.2 |
|                              | <b>Etrend</b>                 | 4.0   | 6.7   | 7.8  | -1.1 |
|                              | <b>Momentum</b>               | 1.8   | 5.8   | 13.2 | -4.5 |
|                              | <b>Growth</b>                 | -0.4  | 1.4   | 6.7  | -7.5 |
|                              | <b>Composite</b>              | 1.2   | 5.4   | 9.6  | 7.2  |

**Past performance is not a reliable indicator of future results** Regional performance is based on IMI region/country indexes. Sector and style values are based on the MSCI ACWI IMI Index. Size values are based on the MSCI ACWI Index. Style values reflect the Quintile 1 minus Quintile 5 spread of William Blair's proprietary quantitative models. Sectors are based on Global Industry Classification (GICS) sectors. Large Cap and Small Cap based on MSCI Global Investable Market Index Methodology. Data in blue reflects the top 20% (highest) values by region, country, sector, and style. Data in red reflects the bottom 20% (lowest) values by region, country, sector, and style. A direct investment in an unmanaged index is not possible.

| <i>Periods ended 6/30/2018</i>                                    | June   | Quarter | YTD    | 1 Year | 3 Year | 5 Year | 10 Year |
|---|--------|---------|--------|--------|--------|--------|---------|
| International Small Cap Growth Fund (WISNX) Class N               | -2.75% | -3.58%  | -4.26% | 8.49%  | 7.38%  | 7.36%  | 5.21%   |
| International Small Cap Growth Fund (WISIX) Class I               | -2.66% | -3.47%  | -4.09% | 8.92%  | 7.74%  | 7.69%  | 5.56%   |
| International Small Cap Growth Fund (WIISX) Institutional Class J | -2.64% | -3.45%  | -4.01% | 8.96%  | 7.81%  | 7.83%  | 5.73%   |
| MSCI ACWI ex US Small Cap (net)                                   | -2.73% | -2.60%  | -2.94% | 10.57% | 7.94%  | 8.98%  | 5.77%   |

Inception 11/1/2005

**Performance cited represents past performance. Past Performance does not guarantee future results and current performance may be lower or higher than the data quoted. Results shown are average annual returns, which 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 1-877-962-5247, 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.**

International Small Cap Growth Fund Expense Ratios:

|                     | <u>Gross</u> |
|---------------------|--------------|
| Class N Shares      | 1.47%        |
| Class I Shares      | 1.16%        |
| Institutional Class | 1.08%        |

*Expenses shown are as of the most recent prospectus.*

*A direct investment in an index is not possible. The MSCI AC World ex-US Small Cap Index is a free float-adjusted market capitalization index that that is designed to measure equity market performance in the global developed and emerging market small capitalization equities, excluding the US.*



The table below shows the calculated sector attribution of the International Small Cap Growth Fund vs. its benchmark.

**International Small Cap Growth Fund vs. MSCI ACWI ex US Small Cap (net)**

04/01/2018 to 06/30/2018

| GICS Sector            | International Small Cap Growth Fund |              |                   | MSCI ACWI ex US Small Cap (net) |              |                   | Attribution Analysis |                        |               |              |
|------------------------|-------------------------------------|--------------|-------------------|---------------------------------|--------------|-------------------|----------------------|------------------------|---------------|--------------|
|                        | Average Weight                      | Total Return | Contrib to Return | Average Weight                  | Total Return | Contrib to Return | Allocation Effect    | Issue Selection Effect | Invest Effect | Total Effect |
| Consumer Discretionary | 17.7%                               | -5.3%        | -1.0%             | 15.5%                           | -3.1%        | -0.5%             | -0.1%                | -0.4%                  | 0.0%          | -0.4%        |
| Consumer Staples       | 7.6%                                | 3.5%         | 0.2%              | 6.6%                            | -1.0%        | -0.1%             | 0.0%                 | 0.3%                   | 0.0%          | 0.4%         |
| Energy                 | 2.5%                                | -1.3%        | -0.1%             | 3.6%                            | 10.4%        | 0.3%              | -0.1%                | -0.4%                  | 0.0%          | -0.5%        |
| Financials             | 17.5%                               | -9.2%        | -1.5%             | 10.6%                           | -5.4%        | -0.6%             | -0.4%                | -0.4%                  | 0.0%          | -0.8%        |
| Health Care            | 9.9%                                | 1.4%         | 0.1%              | 7.6%                            | -1.4%        | -0.1%             | 0.2%                 | 0.2%                   | 0.0%          | 0.4%         |
| Industrials            | 20.0%                               | -7.3%        | -1.5%             | 19.2%                           | -4.4%        | -0.9%             | -0.1%                | -0.6%                  | 0.0%          | -0.7%        |
| Information Technology | 12.7%                               | 4.3%         | 0.5%              | 12.1%                           | -1.6%        | -0.2%             | 0.0%                 | 0.7%                   | 0.0%          | 0.7%         |
| Materials              | 5.3%                                | 3.9%         | 0.2%              | 10.9%                           | -3.1%        | -0.3%             | -0.4%                | 0.8%                   | 0.0%          | 0.4%         |
| Real Estate            | 2.4%                                | -1.1%        | 0.0%              | 10.0%                           | -2.2%        | -0.2%             | -0.1%                | 0.1%                   | 0.0%          | 0.0%         |
| Telecommunication Svcs | 0.0%                                | 0.0%         | 0.0%              | 1.1%                            | -2.5%        | 0.0%              | 0.0%                 | 0.0%                   | 0.0%          | 0.0%         |
| Utilities              | 1.6%                                | -16.1%       | -0.2%             | 2.7%                            | -3.4%        | -0.1%             | 0.2%                 | -0.4%                  | 0.0%          | -0.2%        |
| Cash                   | 2.8%                                | -            | -0.1%             | 0.0%                            | 0.0%         | 0.0%              | 0.1%                 | -0.1%                  | 0.0%          | 0.0%         |
| <b>Total</b>           | <b>100.0%</b>                       | <b>-3.3%</b> | <b>-3.3%</b>      | <b>100.0%</b>                   | <b>-2.6%</b> | <b>-2.6%</b>      | <b>-0.6%</b>         | <b>-0.1%</b>           | <b>0.0%</b>   | <b>-0.7%</b> |

**Past performance does not guarantee future results. Performance cited represents past performance and current performance may be higher or lower than the data quoted.** Gross investment performance assumes reinvestment of dividends and capital gains, is gross of investment management fees and net of transaction costs. Attribution by segment is based on estimated returns of equities held within the segments listed. All stocks held during a measurement period, including purchases and sales, are included. Cash is not allocated among segments. Calculations are for attribution analysis only and are not intended to represent simulated performance history. The actual returns may be higher or lower. We calculate attribution using Opturo. Opturo runs transactions-based attribution, taking into account all trading activity. Interaction effect is reallocated into Allocation effect and Trade effect is reallocated into Issue Selection effect. Invest Effect is the decision to stay invested. It is meant to capture excess fund returns that are attributable to compounding effects rather than an active decision. Sectors are based on Global Industry Classification (GICS) Sectors. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk.

The table below shows the calculated regional attribution of the International Small Cap Growth Fund vs. its benchmark.

**International Small Cap Growth Fund vs. MSCI ACWI ex US Small Cap (net)**

04/01/2018 to 06/30/2018

| Region            | International Small Cap Growth Fund |              |                   | MSCI ACWI ex US Small Cap (net) |              |                   | Attribution Analysis |                        |               |              |
|-------------------|-------------------------------------|--------------|-------------------|---------------------------------|--------------|-------------------|----------------------|------------------------|---------------|--------------|
|                   | Average Weight                      | Total Return | Contrib to Return | Average Weight                  | Total Return | Contrib to Return | Allocation Effect    | Issue Selection Effect | Invest Effect | Total Effect |
| Pacific Ex Japan  | 4.2%                                | -2.3%        | -0.1%             | 8.0%                            | -1.9%        | -0.2%             | 0.0%                 | 0.0%                   | 0.0%          | -0.1%        |
| Japan             | 20.8%                               | -2.5%        | -0.6%             | 22.3%                           | -3.2%        | -0.7%             | -0.2%                | 0.2%                   | 0.0%          | 0.0%         |
| Europe+ME Ex U.K. | 29.7%                               | 2.5%         | 0.7%              | 28.6%                           | -2.1%        | -0.6%             | 0.1%                 | 1.3%                   | 0.0%          | 1.4%         |
| U.K.              | 16.1%                               | 2.4%         | 0.3%              | 12.5%                           | 2.9%         | 0.4%              | 0.2%                 | -0.1%                  | 0.0%          | 0.2%         |
| W Hemisphere      | 3.5%                                | -7.8%        | -0.2%             | 6.7%                            | 6.1%         | 0.4%              | 0.2%                 | -0.9%                  | 0.0%          | -0.7%        |
| EM Asia           | 16.9%                               | -8.4%        | -1.4%             | 17.2%                           | -6.4%        | -1.0%             | 0.0%                 | -0.4%                  | 0.0%          | -0.4%        |
| EMEA              | 3.0%                                | -17.3%       | -0.5%             | 2.4%                            | -16.2%       | -0.4%             | -0.1%                | 0.0%                   | 0.0%          | -0.1%        |
| Latin America     | 3.0%                                | -34.4%       | -1.3%             | 2.1%                            | -17.6%       | -0.4%             | -0.5%                | -0.5%                  | 0.0%          | -1.0%        |
| Cash              | 2.8%                                | -            | -0.1%             | 0.0%                            | 0.0%         | 0.0%              | 0.1%                 | -0.1%                  | 0.0%          | 0.0%         |
| <b>Total</b>      | 100.0%                              | -3.3%        | -3.3%             | 100.0%                          | -2.6%        | -2.6%             | -0.2%                | -0.5%                  | 0.0%          | -0.7%        |

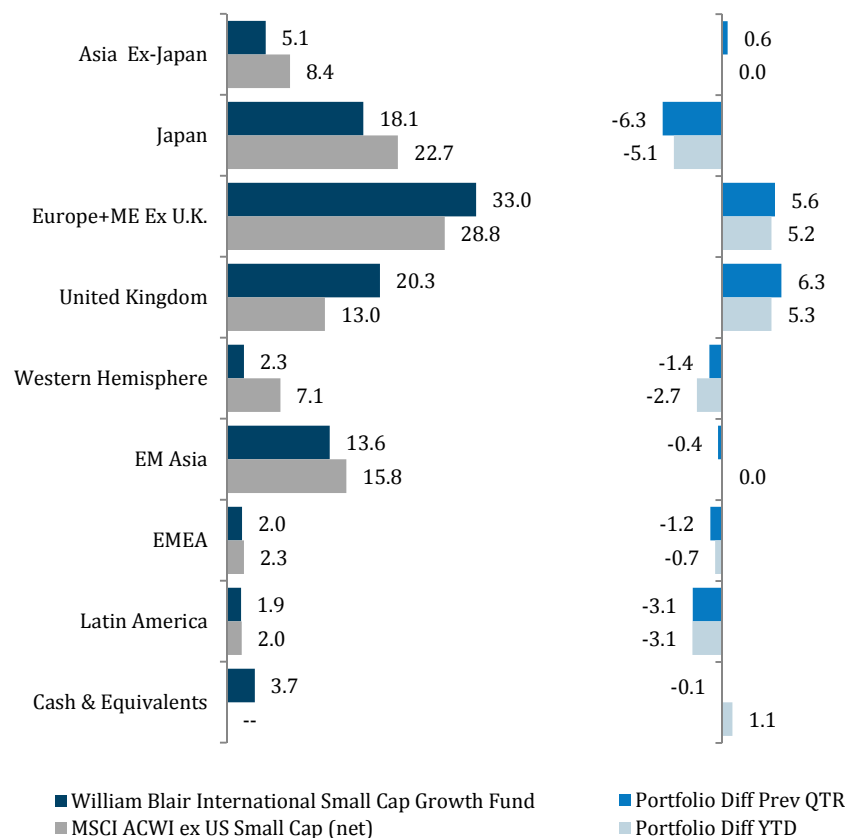
**Past performance does not guarantee future results. Performance cited represents past performance and current performance may be higher or lower than the data quoted.** Gross investment performance assumes reinvestment of dividends and capital gains, is gross of investment management fees and net of transaction costs. Attribution by segment is based on estimated returns of equities held within the segments listed. All stocks held during a measurement period, including purchases and sales, are included. Cash is not allocated among segments. Calculations are for attribution analysis only and are not intended to represent simulated performance history. The actual returns may be higher or lower. We calculate attribution using Opturo. Opturo runs transactions-based attribution, taking into account all trading activity. Interaction effect is reallocated into Allocation effect and Trade effect is reallocated into Issue Selection effect. Invest Effect is the decision to stay invested. It is meant to capture excess fund returns that are attributable to compounding effects rather than an active decision. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk.

The table below shows the International Small Cap Growth Fund's largest holdings as of 6/30/2018 by market cap. The stocks are listed by country and by the economic sector that defines each one's role in the portfolio.

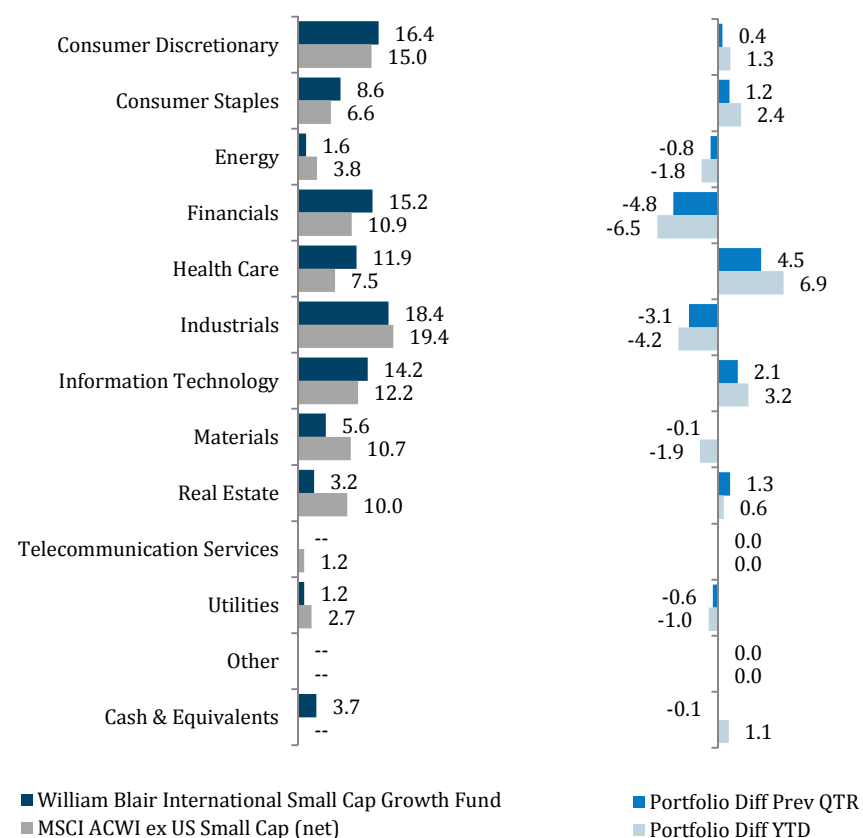
|                      | Country        | Economic Sector        | % of Total Net Assets |
|----------------------|----------------|------------------------|-----------------------|
| <b>Mid Cap</b>       |                |                        |                       |
| Beazley Plc          | United Kingdom | Financials             | 1.8%                  |
| Wix.Com Ltd          | Israel         | Information Technology | 1.3%                  |
| Fevertree Drinks Plc | United Kingdom | Consumer Staples       | 1.2%                  |
| Kose Corp            | Japan          | Consumer Staples       | 1.2%                  |
| Rubis                | France         | Utilities              | 1.2%                  |
| <b>Small Cap</b>     |                |                        |                       |
| Royal Unibrew        | Denmark        | Consumer Staples       | 1.8%                  |
| Thule Group Ab/The   | Sweden         | Consumer Discretionary | 1.5%                  |
| Ssp Group Plc        | United Kingdom | Consumer Discretionary | 1.5%                  |
| Diasorin Spa         | Italy          | Health Care            | 1.4%                  |
| Abcam Plc            | United Kingdom | Health Care            | 1.4%                  |
| <b>Total:</b>        |                |                        | <b>14.4%</b>          |

*Individual securities listed in this report are for informational purposes only, and are not intended to be a recommendation or solicitation for the purchase or sale of securities. Market cap calculations are based on the free float adjusted market cap. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities listed. Specific securities identified and described to do not represent all of the securities purchased or sold and you should not assume that investments in the securities identified and discussed were or will be profitable. Holdings are subject to change at any time.*

**Regional Exposure**



**Sectoral Exposure**



Source: William Blair.  
Cash & Equivalents includes: cash and dividend accruals.

Characteristics of market capitalization, growth, profitability and valuation are shown below in the table below.

|                                    | International Small Cap Growth Fund | MSCI ACWI ex US Small Cap (net) |
|------------------------------------|-------------------------------------|---------------------------------|
| <b>Market Capitalization</b>       |                                     |                                 |
| Medium [\$4-15b]                   | 16.0%                               | 8.5%                            |
| Small [<\$4b]                      | 80.3%                               | 91.3%                           |
| <b>Fundamental Characteristics</b> |                                     |                                 |
| <b>Growth</b>                      |                                     |                                 |
| EPS, 3 year historic               | 19.8%                               | 17.1%                           |
| DPS, 3 year historic               | 16.3%                               | 12.1%                           |
| Reinvestment rate                  | 13.8%                               | 9.2%                            |
| <b>Profitability</b>               |                                     |                                 |
| ROE                                | 19.6%                               | 12.2%                           |
| Operating Margin                   | 17.8%                               | 14.6%                           |
| <b>Valuation</b>                   |                                     |                                 |
| PE [Estimated EPS]                 | 20.7 X                              | 15.4 X                          |
| Price-to-Book Value                | 3.8 X                               | 2.3 X                           |
| EV/EBITDA                          | 14.7 X                              | 10.1 X                          |

Sources: Factset, Eagle.

Market cap calculations are based on the free float adjusted market cap. Growth and profitability characteristics shown are weighted averages, and valuation characteristics shown are weighted harmonic averages.

|                              | Portfolio Weight |                              | Portfolio Weight |                                    | Portfolio Weight |
|------------------------------|------------------|------------------------------|------------------|------------------------------------|------------------|
| <b>Pacific Ex Japan</b>      | <b>5.14</b>      | <b>Japan (continued)</b>     |                  | <b>Europe+ME Ex UK (continued)</b> |                  |
| <b>Australia</b>             | <b>3.45</b>      | <b>Japan (continued)</b>     |                  | <b>Italy</b>                       | <b>5.47</b>      |
| Orora Ltd                    | 0.76             | Tsuruha Holdings Inc         | 0.49             | Diasorin Spa                       | 1.41             |
| Duluxgroup Ltd               | 0.71             | Seria Co Ltd                 | 0.42             | Amplifon Spa                       | 1.21             |
| Costa Group Holdings Ltd     | 0.65             | Japan Lifeline Co Ltd        | 0.40             | Cerved Group Spa                   | 0.59             |
| Reliance Worldwide Corp Ltd  | 0.50             | Benefit One Inc              | 0.38             | Autogrill Spa                      | 0.55             |
| Star Entertainment Grp Ltd/T | 0.40             | Nihon Unisys Ltd             | 0.02             | Banca Ifis Spa                     | 0.51             |
| Corporate Travel Management  | 0.30             | <b>Europe+ME Ex UK</b>       | <b>32.98</b>     | Gima Tt Spa                        | 0.49             |
| Smartgroup Corp Ltd          | 0.12             | <b>Austria</b>               | <b>0.52</b>      | Industria Macchine Automatic       | 0.42             |
| <b>Hong Kong</b>             | <b>1.02</b>      | Schoeller-Bleckmann Oilfield | 0.52             | Brunello Cucinelli Spa             | 0.29             |
| Mgm China Holdings Ltd       | 1.02             | <b>Belgium</b>               | <b>1.04</b>      | <b>Jersey</b>                      | <b>0.81</b>      |
| <b>New Zealand</b>           | <b>0.68</b>      | Melexis NV                   | 1.04             | Sanne Group PLC                    | 0.81             |
| Fisher & Paykel Healthcare C | 0.68             | <b>Denmark</b>               | <b>1.85</b>      | <b>Netherlands</b>                 | <b>1.11</b>      |
| <b>Japan</b>                 | <b>18.08</b>     | Royal Unibrew                | 1.85             | Euronext NV                        | 1.11             |
| <b>Japan</b>                 | <b>18.08</b>     | <b>France</b>                | <b>3.86</b>      | <b>Norway</b>                      | <b>0.70</b>      |
| Tis Inc                      | 1.32             | Rubis                        | 1.22             | Tgs Nopec Geophysical Co Asa       | 0.70             |
| Tokyo Century Corp           | 1.29             | Worldline SA                 | 1.03             | <b>Sweden</b>                      | <b>6.28</b>      |
| Asahi Intecc Co Ltd          | 1.28             | Nexity                       | 0.89             | Thule Group Ab/The                 | 1.54             |
| Nihon M&A Center Inc         | 1.27             | Alten SA                     | 0.71             | Evolution Gaming Group             | 1.29             |
| Paltac Corporation           | 1.25             | <b>Germany</b>               | <b>4.85</b>      | Indutrade AB                       | 1.04             |
| Kose Corp                    | 1.23             | Cts Eventim Ag & Co Kгаа     | 1.12             | Dometic Group AB                   | 0.98             |
| Nissan Chemical Corp         | 1.07             | Norma Group Se               | 1.07             | Swedish Orphan Biovitrum AB        | 0.63             |
| En-Japan Inc                 | 1.06             | Grenke AG                    | 1.01             | Nolato Ab-B Shs                    | 0.47             |
| Matsumotokiyoshi Holdings Co | 1.03             | Stabilus SA                  | 0.84             | Loomis Ab-B                        | 0.35             |
| Sankyu Inc                   | 0.86             | Aurelius Equity Opportunitie | 0.82             | <b>Switzerland</b>                 | <b>1.47</b>      |
| Technopro Holdings Inc       | 0.84             | <b>Ireland</b>               | <b>1.69</b>      | Tecan Group Ag-Reg                 | 0.92             |
| Topcon Corp                  | 0.83             | Udg Healthcare PLC           | 0.95             | Kardex Ag-Reg                      | 0.55             |
| Maeda Corp                   | 0.70             | Kingspan Group PLC           | 0.74             | <b>UK</b>                          | <b>20.26</b>     |
| Pola Orbis Holdings Inc      | 0.63             | <b>Israel</b>                | <b>3.33</b>      | <b>United Kingdom</b>              | <b>20.26</b>     |
| Stanley Electric Co Ltd      | 0.61             | Wix.Com Ltd                  | 1.26             | Beazley PLC                        | 1.78             |
| Ut Group Co Ltd              | 0.57             | Frutarom                     | 1.19             | Ssp Group PLC                      | 1.45             |
| Meitec Corp                  | 0.53             | Mizrahi Tefahot Bank Ltd     | 0.88             | Abcam PLC                          | 1.37             |

As of 6/30/2018. 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 in any one particular sector. Holdings are subject to change at any time. Cash includes cash equivalents and accruals.

|                                   | Portfolio Weight |                              | Portfolio Weight |                              | Portfolio Weight |
|-----------------------------------|------------------|------------------------------|------------------|------------------------------|------------------|
| <b>UK (continued)</b>             |                  | <b>EM Asia (continued)</b>   |                  | <b>Latin America</b>         | <b>1.88</b>      |
| <b>United Kingdom (continued)</b> |                  | <b>China (continued)</b>     |                  | <b>Argentina</b>             | <b>0.81</b>      |
| Dechra Pharmaceuticals PLC        | 1.27             | 51job Inc-Adr                | 0.61             | Globant SA                   | 0.72             |
| Fevertree Drinks PLC              | 1.24             | Noah Holdings Ltd-Spon Ads   | 0.54             | Grupo Supervielle Sa-Sp Adr  | 0.09             |
| Workspace Group PLC               | 1.18             | Li Ning Co Ltd               | 0.50             | <b>Brazil</b>                | <b>1.07</b>      |
| Burford Capital Ltd               | 1.17             | Travelsky Technology Ltd-H   | 0.49             | Localiza Rent A Car          | 0.55             |
| Unite Group PLC                   | 1.17             | Baozun Inc-Spn Adr           | 0.45             | Cvc Brasil Operadora E Agenc | 0.52             |
| Aveva Group PLC                   | 1.09             | China Medical System Holding | 0.37             | <b>Cash</b>                  | <b>3.71</b>      |
| Electrocomponents PLC             | 1.05             | Fuyao Glass Industry Group-H | 0.21             | <b>Total</b>                 | <b>100.00</b>    |
| Diploma PLC                       | 0.98             | <b>India</b>                 | <b>3.57</b>      |                              |                  |
| Spirax-Sarco Engineering PLC      | 0.96             | Jubilant Foodworks Ltd       | 0.78             |                              |                  |
| Intermediate Capital Group        | 0.95             | Mindtree Ltd                 | 0.59             |                              |                  |
| Domino's Pizza Group PLC          | 0.92             | Crompton Greaves Consumer El | 0.57             |                              |                  |
| Halma PLC                         | 0.71             | Indiabulls Housing Finance L | 0.49             |                              |                  |
| Hill & Smith Holdings PLC         | 0.68             | Cyient Ltd                   | 0.46             |                              |                  |
| Rotork PLC                        | 0.59             | Kec International Ltd        | 0.39             |                              |                  |
| Victrex PLC                       | 0.58             | Balkrishna Industries Ltd    | 0.29             |                              |                  |
| Scapa Group PLC                   | 0.51             | <b>South Korea</b>           | <b>0.83</b>      |                              |                  |
| Arrow Global Group PLC            | 0.39             | Hana Tour Service Inc        | 0.45             |                              |                  |
| Cvs Group PLC                     | 0.21             | Hugel Inc                    | 0.38             |                              |                  |
| <b>W Hemisphere</b>               | <b>2.28</b>      | <b>Taiwan</b>                | <b>3.28</b>      |                              |                  |
| <b>Canada</b>                     | <b>2.28</b>      | Chailease Holding Co Ltd     | 1.19             |                              |                  |
| Finning International Inc         | 0.99             | Globalwafers Co Ltd          | 0.89             |                              |                  |
| Canadian Western Bank             | 0.77             | Silicon Motion Technol-Adr   | 0.71             |                              |                  |
| Ces Energy Solutions Corp         | 0.40             | Eclat Textile Company Ltd    | 0.49             |                              |                  |
| Intertape Polymer Group Inc       | 0.12             | <b>Thailand</b>              | <b>0.77</b>      |                              |                  |
| <b>EM Asia</b>                    | <b>13.64</b>     | Tisco Financial-Foreign      | 0.77             |                              |                  |
| <b>Cambodia</b>                   | <b>0.46</b>      | <b>EMEA</b>                  | <b>2.03</b>      |                              |                  |
| Nagacorp Ltd                      | 0.46             | <b>South Africa</b>          | <b>2.03</b>      |                              |                  |
| <b>China</b>                      | <b>4.73</b>      | Clicks Group Ltd             | 0.87             |                              |                  |
| Kingsoft Corp Ltd                 | 0.80             | Avi Ltd                      | 0.64             |                              |                  |
| 3sbio Inc                         | 0.76             | Bidvest Group Ltd            | 0.52             |                              |                  |

As of 6/30/2018. 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 in any one particular sector. Holdings are subject to change at any time. Cash includes cash equivalents and accruals.

# Glossary - Terms

**Alpha:** A measure of a portfolio's return in excess of the market return, after both have been adjusted for risk. It is a mathematical estimate of the amount of return expected from a portfolio above and beyond the market return at any point in time. For example, an alpha of 1.25 indicates that a stock is projected to rise 1.25% in price in a year over the return of the market, or the return when the market return is zero. When an investment price is low relative to its alpha, it is undervalued, and considered a good selection.

**Beta:** A quantitative measure of the volatility of the portfolio relative to the overall market, represented by a comparable benchmark. A beta above 1 is more volatile than the overall market, while a beta below 1 is less volatile, and could be expected to rise and fall more slowly than the market.

**Developed Markets:** Using the Morgan Stanley Capital International (MSCI) geographic definition, this region includes: United Kingdom, Europe (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Spain, Sweden and Switzerland), Japan, Pacific Asia (Australia, Hong Kong, New Zealand, and Singapore) and the Western Hemisphere (Canada and other Americas).

**Debt to Total Capital Ratio:** This figure is the percentage of each company's invested capital that consists of debt. Companies with a high Debt to Total Capital level may be considered more risky. From a portfolio perspective, the portfolio Debt to Total Capital Ratio is a weighted average of the individual holdings' Debt to Total Capital Ratio.

**Emerging Markets:** Using MSCI's geographic definition, this region includes: Emerging Markets Asia (China, India, Indonesia, Malaysia, S Korea, Taiwan, and Thailand), Emerging Markets Europe, Mid-East and Africa (Czech Republic, Hungary, Poland, Russia, Turkey, Egypt, Morocco, and S Africa), and Latin America (Argentina, Brazil, Chile, Columbia, Mexico, Peru and Venezuela).

**EPS (Earnings Per Share) Growth Rate (Projected):** This measure represents the weighted average of forecasted growth in earnings expected to be experienced by the stocks within the portfolio over the next 3-5 years. From a portfolio perspective, the portfolio P/E ratio and EPS Growth Rate are weighted averages of the individual holdings' P/E ratios and EPS Growth Rates. Data calculated in FactSet.

**EV/EBITDA: (Enterprise Value / Earnings Before Interest, Taxes and Depreciation-Amortization):** The EV/EBITDA ratio is useful for global comparisons because it ignores the distorting effects of individual countries' taxation policies. It's used to find attractive takeover candidates. Enterprise value is a better measure than market cap for takeovers because it takes into account the debt which the acquirer will have to assume. Therefore, a company with a low EV/EBITDA ratio can be viewed as a good takeover candidate.

**EV/IC: (Enterprise Value / Invested Capital) Ratio:** Enterprise Value (EV), which is market capitalization minus cash plus debt divided by Invested Capital (IC), which is the sum of common stock, preferred stock and long-term debt. This number will get you a simple multiple. If it is below 1.0, then it means that the company is selling below book value and theoretically below its liquidation value.

**Information Coefficient:** A measure of the correlation between expected and actual returns.

**Information Ratio:** A measure of risk-adjusted return. The annualized excess return of the portfolio relative to a respective benchmark, divided by the annualized tracking error relative to that same benchmark. The higher the measure, the higher the risk-adjusted return.



## Glossary - Terms

**PBV: (Price/Book Value) Ratio:** The PBV Ratio measures the value of a company's common stock relative to its shareholder's equity. A price-to-book multiple above one means that the price of the company's common stock is higher than its common shareholder's equity. A price-to-book multiple below one means that the price of the company's common stock are less than its break-up value, and the shares may be undervalued.

**PCF: (Price/CashFlow):** Some analysts favor the price/cash flow over the price-earnings (PE) ratio as a measure of a company's value. Cash flow is a measure of a company's financial health. It equals cash receipts minus cash payments over a given period of time.

**P/E: (Price/Earnings) Ratio:** This is the most common measure of how expensive a stock is. Simply, it is the cost an investor in a given stock must pay per dollar of current annual earnings. A high P/E generally indicates that the market is paying more to obtain the stock because it has confidence in the company's ability to increase its earnings. Conversely, a low P/E often indicates that the market has less confidence that the company's earnings will increase rapidly or steadily, and therefore will not pay as much for its stock.

**R-squared:** A measurement of how closely the portfolio's performance correlates with the performance of its benchmark, such as the MSC AC World Free ex US Index. In other words, it is a measurement of what portion of a portfolio's performance can be explained by the performance of the overall market or index. Ranges from 0 to 1, where 0 indicates no correlation and 1 indicates perfect correlation.

**Risk (Standard Deviation):** A measure of the portfolio's risk. A higher standard deviation represents a greater dispersion of returns, and thus a greater amount of risk. The annualized standard deviation is calculated using monthly returns.

**Sharpe-Ratio:** A risk-adjusted measure calculated using standard deviation and excess return (Portfolio return – Risk Free Rate) to determine reward per unit of risk. The higher the Sharpe ratio, the better the portfolio's historic risk-adjusted performance.

**Tracking Error:** Tracking Error measures the extent to which a portfolio tracks its benchmark. The tracking error of an index portfolio should be lower than that of an active portfolio. The tracking error will always be greater than zero if the portfolio is anything other than a replication of the benchmark.

**Trailing 1-Year Turnover:** This figure reflects the portfolio's trading activity by calculating the amount of the portfolio's holdings bought or sold over the prior year, expressed as a percentage of the portfolio's average market value. Turnover figures may be related to the amount of trading costs experienced by the portfolio.

**Weighted Average Market Capitalization:** Market capitalization refers to the total market value of each company's outstanding shares. The Weighted Average Market Capitalization for a portfolio is calculated as the average market capitalization of the stocks within the portfolio, weighted by the amount of each stock owned.

**Weighted Median Market Capitalization:** This calculation represents the median market capitalization of the stocks in the portfolio, weighted by the amount of each stock owned.