William Blair

Second Quarter 2023

William Blair Emerging Markets Growth Fund
Fund Manager Commentary

Market Review

Global equities continued to advance in the second quarter (the MSCI ACWI IMI returned +5.89% for the quarter and +13.25% year-to-date in USD terms), as the global economy proved to be more resilient than anticipated on easing inflationary pressures and better-than-feared corporate earnings results. From a global sector perspective, leading outperformance was information technology (+13.21% for the quarter and +35.81% year-to-date, as measured by the MSCI ACWI IMI) and consumer discretionary (+7.62% for the quarter and +22.05% year-to-date, as measured by the MSCI ACWI IMI). Information technology continued its ascent on enthusiasm around artificial intelligence. Alternatively, materials (-0.71% for the quarter and +5.09% year-to-date, as measured by the MSCI ACWI IMI) and real estate (-0.20% for the quarter and -0.08% year-to-date, as measured by the MSCI ACWI IMI) lagged during the period. Growth equities outperformed value-oriented equities (the MSCI ACWI IMI Growth returned +8.67% for the quarter and +22.74% year to date, while the MSCI ACWI IMI Value returned +2.95% for the quarter and +4.29% year-to-date).

U.S. equities advanced during the period (+8.26% for the quarter and +16.07% year-to-date, as measured by the MSCI USA IMI) with gains driven primarily by a handful of large cap technology stocks, however, the breadth of performance broadened in June with small-cap companies outperforming. Inflationary pressures continued to ease during the period; the personal consumption expenditures (PCE) index was relatively benign, showing an increase of 0.1% in May and 3.8% year-over-year. While the Federal Reserved paused its rate hiking cycle in June, Fed Chair Powell signaled that rates could still be increased further if inflation proves sticky. Regional banking stress also seemed to subside. The Federal Reserve conducted its annual stress test, which resulted in all the included U.S. banks clearing the stress test hurdle.

European equities gained for the quarter (+2.46% for the quarter and +12.95% year-to-date, as measured by the MSCI Europe IMI). The European Central Bank raised the deposit rate by 0.25% to 3.5% in June, with signals of a future hike. The Eurozone's annual inflation rate continued to slow in June to 5.5%, primarily driven by sharp declines in energy prices, which are down nearly 50% from their peak last year. U.K. equities advanced (+2.08% for the quarter and +8.09% year-to-date, as measured by the MSCI United Kingdom IMI) despite consumer price inflation holding steady at 8.7%, unchanged from last month. The Bank of England hiked interest rates by 0.50% to 5%, taking the base rate to the highest level since 2008.

Emerging markets posted positive returns (+1.62% for the quarter and +5.62% year-to-date, as measured by the MSCI EM IMI), lagging developed markets primarily from weakness in China. Chinese equities declined (-9.89% for the quarter and -6.00% year-to-date, as measured by the MSCI China IMI index) on slower-than-expected consumption recovery driven by low consumer confidence, continuously high youth unemployment, and the reduced wealth effect stemming from the weak property market. Latin America returns gained (+14.80% for the quarter and +19.52% year-to-date, as measured by the MSCI EM Latin America IMI), with notable strength from Argentina (+35.72% for the quarter and +42.15% year-to-date, as measured by MSCI Argentina), Brazil (+21.85% for the quarter and +18.26% year-to-date, as measured by MSCI Brazil IMI), and Mexico's continued outperformance (+5.39% for the quarter and +26.96% year-to-date as measured by MSCI Mexico IMI). EMEA outperformed (+3.12% for the quarter and +1.91% year-to-date, as measured by the MSCI EM EMEA IMI), led by Poland (+23.47% for the quarter and +23.80% year-to-date, as measured by MSCI Poland IMI).

Top 10 Holdings[1] as of 6/30/23

Company	*% of Fund*
Taiwan Semiconductor Manufacturing Co. Ltd.	8.5
Samsung Electronics Co.	5.4
Tencent Holdings Ltd.	4.2
PT Bank Central Asia Tbk	3.2
Reliance Industries Limited	2.5
Alibaba Group Holding Limited	2.5
HDFC Bank Limited	2.4
AIA Group Limited	2.4
PT Bank Rakyat Indonesia(Persero) Tbk	2.3
Wal-Mart de Mexico, S.A.B. de C.V.	2.3
Total Top 10	**35.7**

Fund Performance

The William Blair Emerging Markets Growth Fund (Class N shares) underperformed its benchmark, the MSCI Emerging Markets IMI index, during the second quarter. Performance

[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.

versus MSCI Emerging Markets IMI (net) during the quarter was driven by a combination of allocation and stock selection effects despite continued style headwinds amid strong outperformance of low-valuation stocks. Positive relative performance was primarily driven by allocation effects across most sectors and countries. The overweights to Brazil and India, and the underweight to China were the largest sources of relative returns. Stock selection within the information technology and financials sectors also contributed to returns.

Within information technology, hardware positions drove strong relative performance, led by Taiwan Semiconductor Manufacturing Company. TSMC is the world's leading independent foundry, with unique manufacturing capabilities in leading-edge chips. The stock strengthened despite challenging near-term dynamics, including soft demand from China as cutting-edge technology companies globally outperformed on expectations for AI to drive long-term demand. In addition, management provided an encouraging semiconductor cycle outlook for the end of 2023 despite near-term weakness as TSMC expects the ongoing inventory correction to bottom in the first half of 2023, followed by a recovery later in the year.

Within financials, Banco BTG Pactual and Bajaj Finance were the primary drivers of relative outperformance. BTG Pactual is an investment bank and wealth/asset manager based in Brazil with a presence across Latin America. The company still operates as a partnership today and has been on a path of diversifying revenues away from the more volatile investment banking business into a more stable revenue stream from wealth and asset management, and corporate lending businesses. BTG outperformed on a combination of Brazil's recovery and strong fundamental results led by above-expectations growth in the more stable business units mentioned above. Bajaj Finance a high-quality consumer finance company with a unique technology-driven customer acquisition and cross-sell model, a diversified loan book, and strong asset-liability management. The stock outperformed on strong fundamental results as it announced strong earnings growth and the addition of over 3 million new users in the most recent quarter contributing to 29% customer growth in the trailing 12 months.

Partially offsetting those effects was negative consumer discretionary stock selection, particularly within China and Brazil. Within China, China Tourism Group Duty Free and Wuliangye Yibin were among the key detractors for the quarter. China Tourism Duty Free is the leading Chinese duty-free operator. Following a sharp rally in late 2022, as the government announced the abandonment of COVID lockdowns, the stock has weakened year-to-date amid concerns about the pace of the consumer recovery in China and specifically the slow resumption of international travel. While China Tourism operates non-airport duty-free shopping, foot traffic in those locations has been lighter than expected. In addition, operational concerns including gate capacity at arrival airports and maintenance requirements for wide-body jets that were not operated through China's COVID lockdowns have reduced near-term expectations for a sales recovery in airport locations. The position was exited in the quarter. Wuliangye Yibin, the second-largest premium baijiu player in China, was also impacted by the softer-than-expected consumer recovery. We expect demand to continue to recover, albeit at a slower trajectory and a combination of price increases and cost-control measures will support margin expansion.

Within Brazil, despite an overweight allocation to Brazil, which had a strong recovery in the second quarter, MercadoLibre was a key detractor for the quarter. Meli is a leading e-commerce platform in Latin America with a best-in-class ecosystem of services such as logistics and payments, which allows the company to exploit attractive growth opportunities of the large and underpenetrated total addressable market. While it is a top contributor year-to-date, and fundamental results exceeded expectations, shares were down slightly following a late-March rally. Despite strong year-to-date performance, strong earnings growth has pushed valuations lower throughout the last 24 months.

Positioning

During the period, information technology weightings were increased through the purchases of Delta Electronics and Global Unichip. Delta Electronics is a diversified provider of power management solutions across a variety of end markets including EV, automation, and infrastructure. While Taiwan based, Delta owns a majority stake in Delta Electronics Thailand which should benefit from IT supply chain diversification efforts. The company offers stable-through-cycle revenue growth, with industry-leading returns on capital and a scale-driven cost advantage with durability underpinned by direct customer relationships and a highly customized product offering. Global Unichip is a Taiwanese ASIC design services company and provides both design and mass production (turnkey) services for semi chip customers, including fabless and system companies. The company's significant IP has driven a long track record at the leading edge of semi technology, and its service offerings provide customers expertise and a faster time to market given its relationship with its primary shareholder TSMC. We believe that growth expectations are understated given recent design wins and the demand from AI related spend.

These increases were funded by reductions to consumer discretionary, driven by the sales of JD and China Tourism Duty Free. JD, which has also faced headwinds from the slower-than-expected consumer recovery in China, was sold on our view of a diminished competitive advantage as the barriers to entry for JD's logistics business have fallen and the rapid increase of competition in e-commerce from streaming video platforms and other smaller players taking market share.

From a geographic perspective, notable adjustments were a decrease to China exposure via the aforementioned sales of China Tourism, JD, and a sale of Contemporary Amperex Technology (CATL). CATL manufactures batteries primarily for use in EVs with a small amount used by utility companies and other large power users for stationary power storage. While market share remains strong spurred by European demand, and CATL remains on the leading edge of innovation, volatility in raw material costs and a deterioration in the U.S. regulatory environment including sourcing requirements for IRA subsidies benefit ex-China battery manufacturers.

These reductions helped fund an increase to Taiwan exposure through the additions in technology hardware, and to India including the purchase of Indian Hotels. Indian Hotels owns or holds long term leases to operate nearly 250 hotels across India, with offerings diversified both geographically and by hotel category, comprising leisure, business, and luxury (including the Taj brand). We believe Indian Hotels should generate strong growth and improving returns as the Indian lodging industry enters a potential multi-year upcycle coming out of the pandemic driven by recovered occupancy and increasing room rates on favorable supply/demand dynamics.

Outlook

The global economy proved resilient in the first half of the year. Headline inflation across most regions has peaked with signs of easing, and by and large corporate earnings surprised to the upside. Dominating headlines was the market momentum within the U.S., which was largely driven by mega-cap technology amid enthusiasm around artificial intelligence. While outperformance in the U.S. was narrowly led by a handful of stocks, performance outside the U.S. was more broadly based, particularly within Europe and Japan.

Economic Expectations

Regional banking stress also has seemed to subside. The Federal Reserve continues to be vigilant on the banking turmoil, providing increased liquidity when necessary. We think the potential for further distress is unlikely and net lending volumes are remaining healthy returning to 2018-2019 levels.

Looking to the second half of the year, expectations are a bit disconnected with projections raised for GDP growth in many areas while earnings estimates have been revised down, with emerging markets skewed the lowest. Thus, despite the market's focus on the risk of a continued slowdown or recession, we believe we could actually experience upside to corporate earnings expectations for the balance of the year if the economic growth plays out as expected.

Global central banks remain vigilant in the fight against inflation, signaling the potential for further rate hikes and higher-for-longer rhetoric, despite headline inflation peaking in most regions. As the energy crisis in 2022 drove up Euro-zone inflation at a quicker rate than the U.S., we expect to see disinflation in Europe more rapid than the U.S. with energy prices continuing to decline (down nearly 50% from their peak last year).

Further, real wage growth has begun turning positive in both the U.S. and Europe for the first time in nearly two years, due to lower inflation. This in turn is supportive for domestic demand and consumption growth, which we expect will support U.S. GDP growth to continue at current levels. While Europe is lagging the U.S. by a few quarters, this is broadly the same story.

Within China, we expect the recovery to be slower than originally projected after losing momentum shortly following its COVID reopening. The near-term outlook remains soft on the slower-than-expected consumption recovery driven by low consumer confidence, continuously high youth unemployment, and the reduced wealth effect due to the weak property market. While uncertainty remains, the potential for government stimulus and improved U.S.-China relations have the potential to drive equities in the near term. Performance has been primarily driven by SOEs and AI-themed names, which we expect to shift as the economy recovers and valuations reset. The overall Chinese market remains inexpensive, but there is no improvement in clarity or timeliness.

Market Views

The narrowness of market leadership, or lack of breadth, has been a surprising phenomenon this year given our belief that a return to historic long-term interest rate levels would suggest a continued broadening out of growth and stock returns.

In reality, the uncertainty of economic outcomes this year has driven the market to safety or visibility of growth, which has favored some of the prior market leaders including large-cap technology stocks, especially in the U.S. Not coincidentally, some of these year-to-date leaders saw their multiple premiums contract considerably last year, and thus perhaps were poised for some degree of re-rating.

Internationally, particularly in Japan and Europe, market performance has been more evenly distributed, and recently the U.S. has begun to see a similar effect with the breadth of market leadership broadening and a reversal away from large-cap technology to small cap and sectors that were left behind, as we had expected earlier in the year. This broadening effect is consistent with easing inflationary pressures and growth stabilizing.

Our portfolios remain focused on identifying a diversity of growth across regions, industries, and market-cap sizes. We believe that the market is due for a shift in momentum, and contraction of relative multiples for the highest-valued companies and areas of the market; as such, we continue to monitor these potential risks within our portfolios.

A Few Words on Artificial Intelligence

The astounding launch of the generative AI application Chat-GPT toward the end of last year has brought unprecedented public attention to all things AI. While we have analyzed numerous artificial intelligence and machine learning applications across a number of applications and industries for the last several years, it is clear we are just now approaching the steep part of the "S curve."

Our work of late has centered on organizing an artificial intelligence taxonomy, so as investors we can begin to assess the areas for the most impact to companies and even industries. The simplified beginning of the exercise is to focus on analyzing which companies or business models currently rely on people to perform tasks that AI can now, or will soon do, cheaper, faster, or more accurately.

We also wanted to highlight which functionalities we believe are done better with AI as compared to a human. In initial phases, we found that vision, translation, and predictive analytics are areas we believe AI has potential for significant impact. For example, vision could mean physical, chemical, or molecular, where AI could surpass the abilities of the human eye. Translation, for instance, could include translating the English language to code or merely language translation. Within predictive analytics, AI's ability to identify peak sales, supply

chain management, peak pricing, or patterns are also areas of potential advancement. As expected, many companies we research and own are far along in a number of these practices.

Importantly, these are preliminary findings. The era of artificial intelligence is just beginning, and the full realization of the technology's benefits, limitations, and risks are still widely unknown in this emergent phase. As growth investors, we are keenly focused on innovation and disruption cycles. While there is currently an abundance of hype built into a few key companies and stocks, the reality is that we do believe this will likely play out as a collection of transformational technologies that will have broad impact on determining corporate winners and losers. Our portfolios will reflect this research, and we look forward to reporting back to you in future writings.

INVESTMENT PERFORMANCE (AS OF 6/30/23)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 06/06/05)	1.55%	5.29%	-2.30%	-0.34%	2.15%	4.06%
Class N (SI: 06/06/05)	1.49%	5.22%	-2.53%	-0.58%	1.88%	3.80%
MSCI Emerging Markets IMI Index (net)	1.62%	5.62%	3.19%	3.60%	1.42%	3.16%

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	1.18%	0.99%
Class N	1.43%	1.24%

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 foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. 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. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. The Fund is expected to incur operating expenses that are higher than those of mutual funds investing exclusively in U.S. equity securities due to the higher custodial fees associated with foreign securities investments.

The Morgan Stanley Capital International (MSCI) Emerging Markets IMI Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. This series approximates the minimum possible dividend reinvestment. 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.

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