William Blair

Second Quarter 2023

William Blair International Small Cap 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 6/30/2023

Company	*% of Fund*
Be Semiconductor Industries N.V.	2.1
AU Small Finance Bank	2.0
Diploma PLC	1.9
Ariston Holding N.V.	1.7
Rotork P.L.C.	1.7
BayCurrent Consulting	1.6
Beazley plc	1.6
Grupo Aeroportuario del Centro Norte	1.6
Abcam plc	1.6
Kinaxis Inc.	1.6
Total Top 10	**17.4**

Fund Performance

The William Blair International Small Cap Growth Fund (Class N shares) underperformed its benchmark, the MSCI ACWI ex US Small Cap index (net), during the second quarter. The International Small Cap Growth strategy slightly

[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.

underperformed the MSCI ACWI ex U.S. Small Cap (net) index in the second quarter, driven by weaker stock selection within industrials. Weaker industrials offset positive stock selection within financials and healthcare.

Stock selection was weaker within industrials primarily due to Technopro. Technopro is a leading Japanese engineering staffing company with a focus on the IT engineering segment. The company's core business of technical staffing is expected to see structural growth in Japan's temporary staffing market. Technopro has achieved double-digit revenue growth, through a combination of successful recruiting and an active price management strategy. The share price softened due to weaker third quarter results as higher-than-expected cost increases from labor hiring offset a rise in revenue.

Industrials stock selection was also impacted by Beijer. Beijer is a distributor of commercial/industrial refrigeration and HVAC equipment. It also manufactures equipment with a focus on energy-efficient and eco-friendly solutions. The company operates mainly in the European market, where it is the largest distributor of HVAC and refrigeration products. Beijer's competitive advantages are its exclusive distribution rights, its broad product portfolio, its expertise in offering environmentally friendly solutions, and its scale. The importance of having access to broad solutions, constant support, and spare parts is highly valued by clients and is achieved by having scale. This creates barriers to entry for competitors. Despite solid first-quarter earnings, the share price softened as management noted some softness in new construction demand and persistent supply chain challenges weighing on negative volume growth.

Positive stock selection within financials was driven by AU Small Finance. AU is a unique small cap Indian financial; we believe it is well-positioned to gain share of a large and expanding TAM and has the potential to deliver outperformance driven by superior earnings and book value growth with attractive returns. Underwriting is strong and the book is granular, retail-focused, and secured. AU is focusing on digital initiatives and is gaining deposit market share. The share price strengthened on news that the Reserve Bank of India had approved the re-appointment of Sanjay Agarwal as MD and CEO of the bank for a period of three years. Investor sentiment was further bolstered on strong fourth-quarter fiscal 2023 earnings, driven by loan growth, margins, and asset quality.

Healthcare stock selection was bolstered by Abcam. Abcam is a leading producer and distributor of life sciences reagents that are fundamental to scientific research. Abcam participates in a market with strong competitors, and consistent new product launches are a requirement to maintain a competitive edge. Abcam's platform and ongoing relationships with life sciences researchers enable the company to see growing areas of interest in the research community and product launches can be tailored appropriately. The share price strengthened in June after the company announced the possibility of strategic transaction. The comprehensive process will begin immediately and will evaluate a broad range of options to maximize shareholder value, including a potential sale of the company.

Positioning

During the quarter, healthcare stock exposure increased through the addition to Abcam. Consumer staples exposure also increased through the new purchase of Kotobuki Spirits. Kotobuki Spirits is a Japan-based company that manufactures and sells confectionery products. The company describes its category as "souvenir candy," which is premium-positioned packaged goods targeting gift-givers and tourists. All products are manufactured in Japan by Kotobuki (vertically integrated). The go-to-market is to link their products to experiences (ex. tourism) by selling their products in train stations, airports, tourist centers, and other nonconventional locations for staples brands, which have high barriers to entry. These changes were offset primarily by a reduction to utilities through the liquidation of EDP Renovaveis. EDP Renovaveis is the largest European pure-play renewable energy company with a focus on onshore wind and solar, currently operating roughly 15GW of installed capacity. We exited the position on concern around further delays in capacity additions and increased competition from oil majors ramping up on renewable investments. We also reduced industrials exposure through trims to the Mexican airport operators Grupo Aeroportuario del Centro and Grupo Aeroportuario Del Sureste.

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: 11/01/05)	1.45%	8.81%	15.71%	1.49%	1.46%	4.53%
Class N (SI: 11/01/05)	1.48%	8.66%	15.43%	1.24%	1.20%	4.23%
MSCI AC World ex-US Small Cap Index (net)	2.05%	6.84%	10.93%	8.15%	2.62%	5.75%

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	1.23%	1.10%
Class N	1.49%	1.35%

Expenses shown are as of the most recent prospectus. The Fund's Adviser has contractually agreed to waive fees and/or reimburse expenses to limit fund operating expenses until 4/30/24.

IMPORTANT DISCLOSURES

The Fund's returns will vary, and you could lose money by investing in the Fund. The Fund holds equities which may decline in value due to both real and perceived general market, economic, and industry conditions. 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.

The Morgan Stanley Capital International (MSCI) All Country World Ex-U.S. Small Cap Index (net) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of small capitalization developed and emerging markets, excluding the United States. 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.

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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