William Blair

Second Quarter 2023

William Blair Emerging Markets 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*
Dino Polska S.A.	3.0
KEI Industries Limited	2.5
TOTVS S.A.	2.4
Multiplan Empreendimentos Imobiliarios S/A	2.2
Varun Beverages Limited	2.2
Nanya Technology Corporation	1.9
Polycab India Limited	1.9
SINBON Electronics Co., Ltd.	1.8
ABB India Limited	1.8
Lotes Co., Ltd.	1.8
Total Top 10	**21.5**

Fund Performance

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

[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.

Markets Small Cap (net) was primarily driven by strong stock selection effect within communication services, real estate, and consumer staples.

JYP Entertainment, the Korean pop ("K-pop") music groups producer and manager drove strong communication services results. The stock price accelerated as the company delivered strong results exceeding consensus expectations as key artists posted records in album sales with resumption of concerts and strong merchandising sales. The growth outlook remains well supported amid accelerating global expansion and launches of new groups in the second half of the year.

Indian property companies Macrotech Developers (Lodha) and Godrej Properties bolstered real estate relative performance. Lodha is one of the largest housing developers in India, with multiple brands catering to different segments. It benefits from a strong brand, above-average project execution, large land bank and ability to grow through joint ventures. Godrej Properties is a leading pan-India real estate developer focusing mainly on residential development. Its competitive advantages are centered on its strong brand recognitions, effective land sourcing model, and proven execution ability. Both companies reported very strong results in the recent quarter amid improving project mix and robust volume growth. In addition, the housing demand outlook remains favorable due to the peak in hiking cycle coupled with robust economic backdrop in India.

Within consumer staples, Dino Polska, a value-oriented proximity supermarket chain in Poland focused in small towns, was a notable contributor to relative results. The company posted strong like-for-like revenue growth of 27% year-over-year, driven by increased traffic and food inflation. The stock strengthened on the back of the company's solid operating performance and improved investor sentiment toward Polish retailers on expectations of gradual consumer spending improvement.

Partially offsetting these effects was the negative stock selection effect within materials and consumer discretionary sectors coupled with overweight position to consumer staples.

Within materials, chemical holdings SRF and Anhui Guangxin Agrochemical dragged down results. SRF is a leader in specialty fluorine chemicals, technical textiles, and packaging films in India. The company delivered robust results driven by the strong chemicals segment, which more than offset weakness in the rest of the portfolio due to weak cyclical demand. Anhui Guangxin Agrochemical is a leading pesticides and fine chemicals producer in China that owns scarce phosgene manufacturing sites and processing permits granted to very few chemical companies. The company delivered a strong set of results for FY22; however, weak end-demand for Guangxin's products combined with deteriorating price dynamics weighed on 1Q23 results and drove the stock underperformance.

Jiumaojiu International Holdings and Wilcon Depot hampered consumer discretionary relative performance. Jiumaojiu International is the Chinese cuisine restaurant chain with two core brands: Jiu Mao Jiu and Tai Er. The stock declined amid softer consumption recovery trend in China coupled with the unexpected resignation of the CFO during the quarter. Wilcon Depot, the leading home improvement retailer in the Philippines, declined as a result of weakening operating performance and growth outlook as same-store-sales growth decelerated due to the high base effect from last year's reopening recovery, and the trend is likely persist in the second half of the year.

Positioning

During the period, the most notable positioning change was the increased exposure to real estate and consumer discretionary, through additions to existing positions and new purchases. Real estate weighting increase was driven by addition to Lodha, Godrej Properties, Multiplan Empreendimentos in Brazil, and Prologis Property Mexico.

Within consumer discretionary, most notable new purchases were Arcos Dorados Holdings, Dixons Technology India, and Grupo Sbf.

Arcos Dorados Holdings is the world's largest independent McDonald's franchisee, with the exclusive right to own, operate, and grant franchises of McDonald's restaurants in 20 countries in Latin America and the Caribbean. Thanks to its impressive execution, digital leadership, and improved consumer value proposition, Arcos has emerged from the pandemic in a stronger competitive position with a bright growth outlook. We believe the company will deliver above-market growth due to faster store rollouts and ongoing execution of the "3D" strategy (digital, delivery, and drive-through).

Dixons Technology India is one of the largest electronic manufacturing services players in India, with capabilities to provide end-to-end solutions for original equipment manufacturers (OEM) and original design manufacturers (ODMs) that are cost-effective and long-standing relationships with leading local and global customers. We believe the company has a strong runway for growth driven by both internal initiatives such as expanded manufacturing capacities and strong sector tailwinds partly driven by the benefits from government incentives and a supply chain diversification objective.

Grupo Sbf (Centauro) is the leading sporting goods retailer in a highly fragmented sporting goods market in Brazil. We believe the company is well positioned to consolidate the market and benefit from the structural growth opportunities from rising consumer spend within the athletic performance and lifestyle categories.

These increases were funded by reductions to financials, information technology, and energy. Financials weighting decreased via trims to Mexican banks and the liquidation of Banca Transilvania, the leading bank in Romania. As interest rates cycle becomes less favorable, net interest income is likely to decelerate. We sold the position in favor of better growth opportunities.

Information technology decreased due to trims to existing positions and the sale of GlobalWafers, a semiconductor company with a balanced exposure between structural and cyclical growth. We exited the stock as the company continues to experience softer shipments in the near term. As memory manufacturers continue to cut production, demand for silicon wafers is expected to further deteriorate.

Within the energy sector, Motor Oil (Hellas), the largest refinery operator in Greece, was a notable position sold during the quarter. While the company delivered better-than-expected results, driven by still-elevated refining margins despite weaker volumes, the outlook for margins is less favorable going forward amid lower risk of supply shortfall in Europe and refining capacity additions coming online.

From a geographic perspective, notable adjustments were a significant increase to India and Brazil to a lesser extent, partially funded by a reduction to China and Mexico weightings.

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: 10/24/11)	6.50%	12.10%	10.65%	6.96%	4.77%	6.06%
Class N (SI: 10/24/11)	6.36%	11.90%	10.31%	6.67%	4.49%	5.76%
MSCI Emerging Markets Small Cap Index (net)	6.39%	10.50%	13.28%	13.72%	4.93%	4.63%

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	1.40%	1.15%
Class N	1.69%	1.40%

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

IMPORTANT DISCLOSURES

The Fund involves a high level of risk and may not be appropriate for everyone. You should only consider it for the aggressive portion of your portfolio. The Fund's returns will vary, and you could lose money by investing in the Fund. The Fund holds equities which may decline in value due to both real and perceived general market, economic, and industry conditions. Investing in securities of smaller companies tends to be more volatile and less liquid than securities of larger companies. International investing involves special risk considerations, including currency fluctuations, higher volatility, lower liquidity, economic and political risk. Investing in emerging markets can increase these risks. The securities of emerging market companies may be subject to greater volatility and less liquidity than companies in more developed markets. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Currency rates may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. Convertible securities may be called before intended, which may have an adverse effect on investment objectives.

The Morgan Stanley Capital International (MSCI) Emerging Markets Small Cap Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of small cap companies in 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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