

William Blair Small-Mid Cap Core Fund Fund Manager Commentary

Market Overview

The U.S. equity market showed resilience throughout the first half of 2023, reflected in the positive performance across U.S. equity indices, albeit with a wide range of performance across style and size dimensions. Despite investors' concerns regarding regional bank failures and higher interest rates, positive developments such as robust jobs growth and moderating inflation provided a strong counterbalance for the market.

During the first quarter, moderating inflation and strong employment data provided optimism for a soft landing. The Federal Open Market Committee (FOMC) increased the target Federal Funds Rate by 25 basis points in both February and March. In March, the market experienced a decline due to the collapse of Silicon Valley Bank and concerns surrounding smaller banks. This led to a rally in U.S. Government bonds as investors questioned the stability of smaller banks and anticipated a potential pause in Federal Reserve (Fed) tightening. Despite these challenges, the job market remained resilient, with notable employment gains in leisure, hospitality, retail trade, and healthcare, somewhat offset by employment declines in information technology.

U.S. equities continued their advance in the second quarter as the likelihood of further bank failures appeared to diminish and the economy displayed modest growth. The revised Q1 Gross Domestic Product (GDP) figures revealed a year-over-year expansion of 2.0%, surpassing the previous estimate of 1.3% growth. In May, the Consumer Price Index (CPI) showed a year-over-year increase of +4.0%, underscoring ongoing inflationary pressures, albeit coming in lower than the multi-decade peak of +9.1% reported in June of 2022. The FOMC raised interest rates by 25 basis points in May, bringing the Federal Funds Rate to a target range of 5.00%-5.25%, the highest level since August 2007.

Fund Performance

The William Blair Small-Mid Cap Core Fund (Class I shares) underperformed its benchmark, the Russell 2500 index, during the second quarter. During the second quarter, the portfolio trailed the return of the Russell 2500 Index. Relative performance drivers were primarily stock specific. Top detractors from performance were Mercury Systems (Industrials) and Axon Enterprise (Industrials). Shares of Mercury Systems, a provider of sensor processing subsystems, declined on near term profit pressures amidst manufacturing and supply chain challenges. Shares of Axon, a leading provider of law enforcement technology, lagged after reporting strong quarterly results against elevated expectations. Other notable

Top 10 Holdings¹ as of 6/30/23

<i>Company</i>	<i>% of Fund</i>
BWX Technologies, Inc.	2.4
Casella Waste Systems, Inc.	2.3
Encompass Health Corporation	2.2
Bright Horizons Family Solutions	2.2
Cameco Corporation	2.2
Chart Industries, Inc.	2.1
Builders FirstSource, Inc.	2.1
Merit Medical Systems, Inc.	2.0
Verra Mobility Corporation	1.8
Americold Realty Trust, Inc.	1.8
Total Top 10	21.1

detractors included Sylvamo (Materials), Certara (Health Care) and Primo Water (Consumer Staples). Top contributors to performance were Industrials holdings Builders FirstSource and Chart Industries. Shares of Builders FirstSource, a materials manufacturer and distributor for home builders, benefited from demand strength in the multi-family unit end market, as well as continued share repurchases and favorable guidance. Chart Industries, a leading global manufacturer of highly engineered cryogenic equipment, demonstrated positive progress with respect to an acquisition announced late in 2022. Other strong performers included Encompass Health (Health Care), National Vision Holdings (Consumer Discretionary) and Cameco (Energy). Stock specific contributors and detractors for the second quarter are discussed in greater detail at the end of this quarterly review.

Outlook

As we enter the second half of the year, there is potential for the Fed's rate-hiking cycle to exert a slowing effect on economic growth. While the pace of inflation has moderated, it remains above the Fed's target level, indicating the possibility of additional interest rate increases. Although the full impact of

¹Listed 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.

rate increases over the past 18 months has yet to be felt, there are already noticeable effects as lending conditions tighten for businesses, consumers, and real estate developers. Despite these potential headwinds, the current backdrop of a slowly expanding economy, robust consumer spending on areas such as travel and leisure, and new job growth offers support for equity investors.

Looking ahead, companies with strong balance sheets, durable business models, sustainable cash flow, and the ability to self-fund growth are likely to be uniquely positioned as the economic landscape unfolds. We believe our philosophy of identifying durable businesses whose stocks present attractive risk/reward opportunities should serve us well in a variety of economic environments, as it has historically.



INVESTMENT PERFORMANCE (AS OF 6/30/23)

	QTR	YTD	1 Y	3 Y	5 Y	Since Incep.
Class I (SI: 10/1/19)	4.73%	8.06%	14.50%	15.19%	--	10.65%
Russell 2500™ Index	5.22%	8.79%	13.58%	12.29%	--	8.69%

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	1.21%	0.95%

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 invests most of its assets in equity securities of small cap and mid cap companies where the primary risk is that the value of the equity securities it holds might decrease in response to the activities of those companies or market and economic conditions. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Investing in small and medium capitalization companies involves special risks, including higher volatility and lower liquidity. Small and mid-cap stocks are also more sensitive to purchase/sale transactions and changes in the issuer's financial condition. Diversification does not ensure against loss. The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell 2500™ Index measures the performance of the 2,500 smallest companies in the Russell 3000 Index, which represents approximately 19% of the total market capitalization of the Russell 3000 Index. 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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