William Blair

Second Quarter 2023

William Blair Mid Cap Value Fund
Fund Manager Commentary

Market Overview

In many ways, the second quarter of 2023 was an extension of the first quarter. Economic data showed continued improvement and suggested the actions of the U.S. Federal Reserve (the "Fed") are slowing inflation. The much-watched Consumer Price Index (the "CPI") declined every month and was down to a more palatable 4.0% in May from 6.4% in the beginning of the year.

The market also exhibited many of the same trends of the prior quarter, especially a preference for the stocks of larger and faster-growing companies. Large-cap stocks, as defined by the S&P500 Index (the "S&P") gained 8.7%, compared to an 5.2% increase in Small-Cap stocks, as defined by the Russell 2000 Index (the "Russell 2000"). Similarly, the Russell MidCap Growth Index increased 6.2%, outpacing the 3.9% return of the Russell MidCap Value index.

Fund Performance

The William Blair MidCap Value Fund (the "Fund") returned a positive 4.96% net of fees in the quarter, which beat the Russell MidCap Value Index (the "Benchmark") by 1.10%.

The Financials sector was the best performing sector which added 70bp of relative outperformance. While the Fund's banks and insurance shares were positive contributors to relative performance, the Fund benefitted from a meaningful rebound in the student lending company SLM Corp. We used this event as an opportunity to take profits and exit the position out of concern that restarting student loan payments will have a negative impact on credit quality. The Fund's Healthcare investments were also additive to relative performance during the quarter, largely driven by the outperformance of health care providers, such as Encompass Health Corporation and AmerisourceBergen Corporation. The Information Technology sector was also a positive contributor, driven by strength in hardware and equipment, which offset modest weakness in semiconductors and software. Similarly, strength in chemicals offset the headwind from the underweight position in construction materials and resulted in a positive contribution from the Materials sector. Within the Consumer Staples sector, Molson Coors Beverage Company was a top contributor. The company has gained market share from an embattled competitor; we also used this strength to take profits and reduce the position size. Lastly, the Fund's investments in the Real Estate and Utilities sectors modestly outperformed the index.

Conversely, four of the eleven economic GIC sectors were detractors to the Fund's relative performance in the quarter. The Communication Services segment was a modest detractor as entertainment company Warner Bros. Discovery, Inc. gave back some of the first quarter's significant gain. Within the Consumer Discretionary segment, strong performance of Household Durable companies more than offset the detraction from not owning shares of Cruise Line companies. The largest headwind to relative performance, however, was the significant decline in specialty retailer Advance Auto Parts, Inc. associated with much worse-than-expected quarterly results. While this stock has been disappointing, we continue to believe that the long-term thesis is intact, and that the position has significant future potential. The Energy sector underperformed largely due to an underweight in gas focused Exploration and Production ("E&P") stocks which benefitted from a large increase in the commodity benchmark. Industrials was the worst performing sector as performance was hurt by an underweight position in the Building Products segments, which benefitted from a resilient housing market, and Electrical Equipment manufacturer Acuity Brands over concerns of its exposure to the slowing non-residential construction markets.

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

Company	*% of Fund*
Toll Brothers, Inc.	2.8
Snap-on Incorporated	2.5
The Timken Company	2.5
LKQ Corporation	2.1
Knight-Swift Transportation Holdings	2.1
Jabil Inc.	2.1
Arch Capital Group Ltd.	2.1
AGCO Corporation	2.1
Ralph Lauren Corporation	2.1
ITT Inc.	2.0
Total Top 10	**22.4**

Outlook

We expect that the near-term direction of equity markets will be largely influenced by two debates. First, has the Fed been able to tame inflation without causing wide-spread economic

[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.

damage, or has the “bill” just not arrived yet? While the Fed has increased rates 475bp since March 2022, the real yield has only recently become positive. Similarly, the yield curve remains firmly inverted which has not only historically been a leading indicator of a recession, but also created a viable option to equity investments in the form of short-term interest rates. The second question is: can inflation trend lower with solid employment intact? If the Fed believes inflation is on a glide-path lower, then they may be done raising rates. However, if the Fed believes there is an unemployment level that is required to achieve its inflation target, then there may be additional rate increases in store.

Regardless, we believe that if the economy should contract, the depth will be less than many fear. More specifically, our view is that there could be series of smaller or rolling contractions. Indeed, it appears that some industries, such as trucking, aerospace, and auto manufacturing are either currently in a recession, or may have already exited one. Recent employment data supports this argument as it shows that while some industries, such as technology are experiencing layoffs, others, such as hospitality, are hiring.

This quarter offered some encouraging signs that the equity markets are increasingly agreeing with our position that some sectors are oversold and offer compelling opportunities. Although cautious in our outlook, given the pace of rates hikes, much of this pessimism is already reflected in the valuation of the Portfolio, which stands at an historically low 11.5x’s next twelve months estimated earnings.

INVESTMENT PERFORMANCE (AS OF 6/30/23)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y	Since Incep.
Class I (SI: 3/16/22)	4.96%	5.88%	12.50%	--	--	--	-1.29%
Russell Midcap® Value Index	3.86%	5.23%	10.50%	--	--	--	-0.91%

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	8.60%	0.75%

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. Investments in mid-cap companies involve greater risk than those in larger, more established companies, including higher volatility and lower liquidity. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. 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 Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. 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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