William Blair International 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*
ASML Holding N.V.	2.0
Taiwan Semiconductor Manufacturing Co. Ltd.	1.9
Novo Nordisk A/S	1.7
Linde plc	1.7
DSV A/S	1.6
AstraZeneca PLC	1.6
Amadeus IT Group, S.A.	1.5
Keyence Corporation	1.5
Compass Group PLC	1.5
Canadian Pacific Kansas City Limited	1.5
Total Top 10	**16.5**

Fund Performance

The William Blair International Growth Fund (Class N shares) outperformed its benchmark, the MSCI ACWI ex US IMI (net), during the second quarter. Outperformance versus MSCI ACWI ex USA IMI (net) was primarily driven by allocation effects, in

[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.

particular, an overweight to industrials and underweights in communication services and materials. Selection effect was negative, with industrials and information technology stock selection weighing on performance, partially offset by positive stock selection within financials and materials. The strategy benefited from an underweight in China, but this was offset by the negative impact of an underweight in Japan.

Within industrials, Teleperformance was a primary driver of negative selection. During the quarter, Teleperformance announced a proposed cash and stock offer for Majorel, one of its peers in the customer experience provider segment, at a significant premium. This caused short-term weakness in the stock price. Our view is that this acquisition is counter to management's previously stated M&A strategy given the overlap in business lines and customer base. At the same time, Teleperformance's business model may be at risk given the significant progress of AI. We exited the position during the quarter a as result of these developments.

Information technology selection was negatively impacted by Mediatek. Mediatek, a Taiwanese semiconductor company specializing in chips used in wireless communication and mobile devices, was down in the second quarter as uncertain demand has weighed on sentiment. As China reopens, demand for its products should increase, and we believe we are approaching a low point and continue to hold the stock.

Selection within financials was bolstered by B3, a high-quality equity and derivatives exchange in Brazil. It operates an attractive business model with monopoly status, a diversified revenue base, and a vertically integrated multi-asset platform (trading and post-trading functions). This has resulted in high barriers to entry, strong profitability and healthy cash generation, and shareholder returns over the long term. The stock traded higher along with a strong rally in the Brazilian market and strengthening financials as they recover from the U.S. banking crisis.

Selection within materials was also positive, due in part to not owning stocks within the metals and mining industry, which fell along with the prices of commodities such as aluminum, nickel, silver, and copper. Also contributing was a position in Linde, which provides consumable gases across a wide array of industrial and commercial end-markets that are integral to various production process. The company posted a strong set of results, beating on margins and earnings and raising full-year EPS guidance.

Positioning

During the quarter, exposure to China was reduced across several sectors and included the sale of Alibaba. The reopening of China's economy has not been as robust as originally thought and this is likely to weigh on corporate earnings over the next few quarters. At the same time, Alibaba is undergoing leadership changes, with CEO Daniel Zhang stepping down this year. This comes after a recent announcement to split the company into six business units. The ongoing changes give us less confidence in execution in the short-term.

Exposure to Japan was increased and included buys of Tokyo Electron and Ajinomoto. Tokyo Electron manufactures semiconductor production equipment and flat panel display equipment. We believe that the company will be a beneficiary of secular tailwinds in semi equipment that include broadening demand drivers, such as 5G and AI, as well as motivations for geographic diversity and expansion among suppliers. Ajinomoto's main business is focused on seasonings and condiments, and the company also produces amino acids used in pharmaceuticals. We believe the company is well placed to accelerate earnings growth and surprise consensus with cash earnings power and ROIC trajectory, while still trading at a discount to its core peer group.

Our 2023 outlook on growth has modestly improved as real wages have started to turn positive on the back of falling inflation. We believe quality growth companies, which have lower valuations after the recent correction, are positioned to perform better. Additionally, over the past several quarters we adjusted the portfolio to broaden out sector and geographic exposures with a focus on earnings visibility and resilience, which we expect will better align the strategy with the economic environment and potentially result in relative outperformance going forward.

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: 10/01/99)	2.65%	11.27%	14.89%	4.55%	4.63%	5.82%
Class N (SI: 10/01/92)	2.56%	11.12%	14.61%	4.26%	4.32%	5.50%
MSCI AC World ex-US IMI (net)	2.38%	9.10%	12.47%	7.33%	3.38%	4.88%

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	1.10%	0.99%
Class N	1.37%	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's returns will vary, and you could lose money by investing in the Fund. 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 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. The Fund invests most of its assets in equity securities of international growth 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. Diversification does not ensure against loss.

The Morgan Stanley Capital International (MSCI) All Country World Ex-U.S. IMI Index (net) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 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.

Distributed by William Blair & Company, L.L.C., member FINRA/SIPC

Copyright © William Blair & Company, L.L.C. "William Blair" is a registered trademark of William Blair & Company, L.L.C.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE