

## Fund Manager Commentary William Blair Growth Fund

### Market Summary

The William Blair Growth Fund outperformed the -5.93% return of the Russell 3000 Growth Index for the third quarter.

During the third quarter, U.S. equities declined and volatility spiked. A modest market advance in July was followed by significant downdrafts in August and September. The sharp mid-August selloff took growth benchmarks into correction territory and was driven by concerns of slowing growth in China, intensified by the government's decision to devalue the Chinese yuan, and spillover effects for the global economy. At the same time, investors took notice of cautionary market signals such as increasing credit spreads in both high yield and investment grade bonds and declining 10-year U.S. Treasury yields. In the U.S., strong consumer confidence, improving labor market health and solid housing data suggest that the economy remains relatively healthy. However, in a risk-off environment, U.S. equities traded down as investors doubted the resiliency of the U.S. in the face of more challenged growth abroad.

After regaining some ground from August lows, the market sold off again in late September. Weighing on investor psyche throughout the quarter was lingering uncertainty as to when the Federal Reserve is likely to raise interest rates. After dovish commentary and the Fed's September decision to leave policy unchanged, investors reacted negatively, likely due to the implication of Fed concern that global economic weakness could potentially disrupt the U.S. economy. Also contributing to September weakness was a correction in biotechnology and specialty pharmaceuticals, sparked by speculation of drug pricing controls. The group had gotten frothy, particularly in small-caps, and once the sell-off started, it had little support given high valuations and significant ownership by momentum-oriented investors.

### Fund Review and Outlook

In a quarter with heightened volatility and negative equity market returns, our Fund was able to protect capital better than its benchmark. Third quarter outperformance was driven by stock selection. Information Technology was a standout sector, led by

### Top 10 Holdings

<i>Company Name</i>	<i>% of Fund</i>
Google Inc.	6.9%
Amazon.com, Inc.	4.7%
MasterCard Incorporated	4.5%
Lowe's Companies, Inc.	3.7%
Bristol-Myers Squibb Company	3.5%
Dollar General Corporation	3.1%
Red Hat, Inc.	3.1%
Union Pacific Corporation	3.1%
Vantiv, Inc.	2.9%
Gilead Sciences, Inc.	2.9%
<b>Total Top 10</b>	<b>38.4%</b>

strong performance from positions in Google, Vantiv, and Pandora Media. Google outperformed due to solid business results in core search, YouTube and mobile, in addition to signals that the company will increase its focus on financial discipline going forward. Other top contributors included Consumer Discretionary holdings Amazon.com and Lowe's Companies. Amazon.com outperformed on robust results in both its Amazon Web Services and core ecommerce segments, with stronger than expected revenue and operating margins. While Consumer Discretionary had an overall positive contribution to return, a number of our largest detractors came from the sector, including BorgWarner and Sally Beauty Holdings. Shares of BorgWarner declined after the company reported disappointing sales and earnings, driven by soft sales volumes and ongoing growth investments in manufacturing capacity, and in sympathy with Volkswagen emission test scandal, despite uncertainty regarding its ultimate impact on BorgWarner. Sally Beauty Holdings underperformed as recent investments have pressured margins and have yet to produce the expected uptick in traffic. Other notable detractors included Keurig Green Mountain (Consumer Staples), HMS Holdings (Health Care), and Schlumberger (Energy).

Looking forward, we expect the U.S. economic expansion to continue on its path of slow but steady growth. The Fed's stance on monetary policy implementation remains data dependent and over the course of the quarter investors generally became more

skeptical that we would see an initial rate hike before year end. With heightened monetary policy uncertainty in the near term, we would expect higher levels of market volatility to continue in the coming months. We do not attempt to predict when the Fed will begin raising rates, but we do believe rates are likely to stay lower for longer than they otherwise would have due to economic risks abroad and the excess capacity that exists in many parts of the global economy today, both of which are likely to limit inflationary pressures.

Among these risks, China remains the most notable. The country has been overly dependent on fixed asset investment in real estate, manufacturing capacity and infrastructure to drive economic growth and faces a difficult transition from an industrial economy to a consumer-led economy. China's trajectory on this front will have important implications for other emerging markets, particularly commodity-driven economies reliant on Chinese demand. Further, from the viewpoint of a capitalist society, we have seen excessive intervention by the Chinese government in its financial system and the consequences of past and future policy decisions in China remain to be seen.

From our bottom up perspective, we remain constructive on corporate earnings, albeit against a low revenue growth backdrop. Broadly speaking, we do not see signs of exuberance from company managements; they have remained disciplined from a hiring and capital expenditure standpoint and balance sheets continue to be healthy. Assuming global economic weakness does not disrupt the U.S. economy (and therefore corporate earnings), the recent sell off has eased valuations on U.S. stocks, particularly given the backdrop of solid corporate fundamentals and low inflation. In this environment, we are optimistic for our portfolio of high quality companies whose stocks trade at attractive valuations relative to the expected growth and consistency of the businesses.

**Investments are subject to market risk.**

**Performance cited represents past performance. Past performance does not guarantee future results and current performance may be lower or higher than the data quoted. Investment returns and principal will fluctuate with market and economic conditions and you may have a gain or loss when you sell shares.**

**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. Top ten holdings are shown as a percentage of total net assets.**

**For the most current month-end performance information, please call 1-800-742-7272, or visit our Web site at [www.williamblairfunds.com](http://www.williamblairfunds.com).**

***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, which you may obtain by calling 1-800-742-7272. Read it carefully before you invest or send money.***

William Blair & Company, L.L.C., distributor.