

Global Growth Fund

12/31/11

Summary

After a positive start, 2011 hit a rough patch as the markets centered on the continuing European debt crisis, developed sovereign credit rating downgrades and concerns of a potential global contagion effect. Daily market volatility centered on investors' perception of governmental wherewithal to deal with these issues and on news flow of their progress. Despite the focus on developed markets, emerging markets were no safe haven during the period, as inflationary pressures precipitated monetary policy tightening across most emerging markets, and as concerns about Chinese overinvestment and infrastructure overbuild intensified during the third quarter. Despite these concerns, economic indicators in the United States remained stable, the Eurozone moved closer to tighter fiscal and monetary policy integration, and corporate performance generally remained strong.

These concerns continue to affect global markets, however, as details surrounding "Europe's Grand Bargain" have not been finalized and financial system liquidity, while improving, remains relatively tight. The market also remains focused on incremental data points in China regarding infrastructure spending, property market values, and asset quality, the overall tradeoff between inflation and economic growth, and the resulting implications for global growth. Finally, concerns linger about the profitability and capital position of financials, along with the implications of the 2008 and the European debt crisis on regulation, capital requirements, asset quality and prospective loan growth.

Given this backdrop, the global equity market ended 2011 down 7.89%, despite an early year rally and October bounce. While globally there was virtually no difference attributable to style, outside the US, the MSCI ACWI ex-US Growth Index underperformed the Value index by approximately 70 basis points. Small cap stocks were down nearly 16% outside the US during 2011, underperforming their larger capitalization counterparts, with the exception of Japan. The more defensive sectors outperformed, as Healthcare and Staples were each up approximately 7%, while Materials and Financials were the worst performing sectors, down 18% and 21%, respectively. After depreciating most of the year, the USD appreciated versus most developed market currencies beginning in September to end the year with slight appreciation. The notable exception was the Japanese yen, which appreciated versus most currencies globally.

Despite the concerns about debt downgrades and the European debt situation as a whole, developed markets significantly outpaced emerging markets, as the World Index was down 6.03%, well ahead of the -19.49% Emerging Markets Index return. The US was a key driver of that strong relative performance, as it eked out a 0.63% return for the year, well ahead of almost all other developed markets. Japan, after falling significantly following March's earthquake and tsunami, rebounded mid year only to retreat during the fourth quarter. It ended the year down nearly 13%, although it benefited from the Yen's appreciation. Similarly Europe, which began the year strongly, was the epicenter of concern for most of the year, and ended 2011 down over 16%, led on the downside by Greece (-61%) and, to a lesser extent, Austria (-34%), Finland (-31%),

Top 10 Holdings

Company Name	% Of Fund
Apple Inc.	3.0%
Samsung Electronics Co., Ltd.	2.3%
Exxon Mobil Corporation	2.1%
International Business Machines Corporation	2.1%
Yum! Brands, Inc.	2.0%
Industrial and Commercial Bank of China, Ltd.	2.0%
Starbucks Corporation	2.0%
Hyundai Motor Company	2.0%
QUALCOMM Incorporated	1.9%
Nestle S.A.	1.8%
Total Top 10	21.2%

and Israel (-29%). Conversely, Switzerland, which was down 8%, was a key outperformer in Europe. Other developed markets countries that performed well on a relative basis included Canada and the UK.

The three emerging markets regions were each down between 19% to 21% during 2011, although country returns varied significantly even within regions. Indonesia was the only emerging market country with a positive return, up 4.31%, on continued growth. Other countries that were top performers included Mexico, South Africa, and Thailand. Conversely, the worst performing emerging market country was Egypt, which was down 47.62%, following the regime change in January and persisting uncertainty throughout the remainder of the year. India was also down significantly, falling 39%, due partially to a depreciating Rupee, but also due to concerns about inflationary pressures, high costs, and the overall competitive environment within that country. Central and Eastern Europe generally suffered along with the travails of Western Europe, due to financial market integration and follow on effects. After underperforming a large percentage of the year, China ended the year in the middle of the pack, down approximately 21%, due to an 8% fourth quarter rally.

Within this context, the William Blair Global Growth Fund outpaced the index during the fourth quarter and full year of 2011. Fourth quarter outperformance was driven by the Fund's emphasis on high quality companies with sales and earnings resilience. The effect was exemplified through positive stock selection in most sectors: notably Industrials, Financials and Consumer Discretionary. Rolls-Royce, Weir Group, Starbucks, Grainger, and Yum! Brands were some of the key contributors to outperformance. The Fund's aversion to developed world commercial and investment banks was a key driver of Financials performance. Most of the regions of the world outperformed with the exception of the United States. During the quarter, we continued to modify Fund positioning in favor of companies that we believe will be able to demonstrate consistent growth despite the economic uncertainty. In particular, companies such as Baidu, Samsung Electronics, and Checkpoint Software were several high quality names we added during the quarter that were trading at compelling valuations due to market volatility.

Despite lagging early in the year on the European low quality rally, the Global Growth Fund's full year outperformance was driven by its focus on quality companies with strong operating performance. In the slowing growth environment experienced during the latter part of the year, those companies with stronger intrinsic growth capabilities provided positive relative stock performance. As a result, performance was strong across most sectors, particularly IT, Consumer Discretionary, Industrials and Financials. Apple, Gree and IBM all contributed within IT. In addition, the Fund benefitted from Hewlett Packard's bid for Autonomy. Within Discretionary, stock selection was strong with Starbucks, Hyundai Motor, Yum! Brands, Nike, O'Reilly Automotive, and Hansen Natural (Monster Beverage) all contributing to outperformance. The Industrial sector outperformance was driven by Grainger, Rolls-Royce, Weir Group, Babcock International and Experian. Financials stock selection benefited from the underweighting in commercial and investment banks throughout the year. Despite the Healthcare sector outpacing the market overall, our Fund returns were hurt by poor stock selection in that sector. Energy sector underexposure and stock selection also detracted from performance throughout the year.

The overall complexion of the Fund did not change dramatically throughout 2011. Consumer Discretionary and IT sectors were the consistent overweights, as well as Industrials, although to a declining degree. The largest underweights were consistently in the Financials and Materials sectors. The U.S. weighting remained high – given historical Fund positioning – at a near benchmark level. We believe economic stability and valuation is relatively attractive in that country. The global emerging markets were uncharacteristically underrepresented in the Fund this year, which aided relative performance. This could be an area of renewed focus for us as the outlook in China in particular becomes more (positively) visible. The biggest variables that could impact 2012 performance based on the Fund's current positioning are the economic growth and stability in China, and the political deliberations and policy measures within the European Union.

Outlook

It has been twelve years since the historic highs of the 1999-2000 bull market. During that time, the world economy has been through a post-bubble consolidation, a credit-fuelled expansion, a severe recession, and a tentative recovery (2010-2011) that has been challenged by persistent doubts about the sustainability of global growth. Economic performance has been volatile over the whole period, and conventional assumptions about the viability of policy regimes and the financial system have come under attack.

It has been predominantly a bear market cycle, with major developed markets all still below their early-2000 peaks. Corporate performance has been strong over the last decade—profit growth has far outpaced economic growth around the world; at the same time, emerging market equity values have expanded significantly. Nevertheless, overall market returns have been significantly impacted by an erosion of confidence. Earnings multiples on global markets have contracted in eight out of the last twelve years, declining from a high of 25x earnings in 2000 to lows of just above ten times in 2008 and 2011.

PE ratios contracted in both 2010 and 2011, reflecting caution in expectations for both growth and valuation. Institutional, hedge fund, and retail investors have swung decisively to the pessimistic end of the long term sentiment spectrum in the last several years. Strategists like Albert Edwards of SocGen, investors like Jeremy Grantham of GMO, and media sources such as the Daily Telegraph and ZeroHedge provide an array of negative perspectives on capital markets ranging from overleverage and financial disorder to permanent impairment of growth to the assertion that valuation and profitability measures are illusory.

Consensus expectations today are built around a scenario of moderate European recession (with continuing risk of financial instability), a cooling effect on global growth from bank deleveraging, an unpredictable deceleration in investment growth in China, and chronic sluggishness in the US. If the economic and financial conditions behind those assumptions begin to change at the margin, there could be scope for improvement in the market return environment, especially given the modest starting point on valuations.

After months of crisis headlines, at this point the prospects for change do seem to be improving. In Europe, the extended and expanded LTRO facility has brought funding relief to the banks and strengthened the tone of recent bond auctions. China has seen selective easing measures enacted as inflation has begun to recede, and other emerging market authorities are easing as well. US economic indicators are continuing to improve amid signs that the government is preparing a more activist approach to the lingering housing market problems.

From here, critical indicators to watch will include US employment data, Greek debt negotiations, peripheral European country budget debates, Chinese housing and industrial activity, and the trend in corporate profitability as growth decelerates. If there is observable improvement in three or more of these five key benchmarks of global economic performance, the market environment could turn a good deal more positive in 2012.

International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. Investing in emerging markets can increase these risks.

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. For the most current month-end performance information, please call 1-877-962-5247, or visit our Web site at 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 1-877-962-5247. Read it carefully before you invest or send money.

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