

## The Rising Opportunity in U.S. Small Caps

Our U.S. growth and core equity team believes multiple catalysts are driving the rising opportunity in U.S. small-cap stocks.

1

### Valuation Opportunity

The relative valuation of small caps compared to large caps is near multi-decade lows, representing one of the most significant discounts relative to historical levels.

2

### Pro-Business Policies

The Trump administration's pro-U.S. policies are expected to create a supportive environment for domestically focused businesses.

3

### Resilience During Economic Recoveries

While the Trump administration's tariff policies pose a risk to economic activity, small-cap stocks typically have exhibited strong returns in post-recession recoveries.

4

### Built for the Long Term

Small caps have historically weathered numerous significant downturns and ultimately delivered strong performance.

### Active Management Edge

William Blair's Small Cap Growth Fund has offered a compelling combination of strong relative performance and risk-adjusted returns over time, driven by our rigorous bottom-up research process, which seeks to identify high-quality growth companies and capitalize on market inefficiencies.

### Author:

U.S. Growth and Core Equity Portfolio Specialist Team

**Valuation Opportunity**

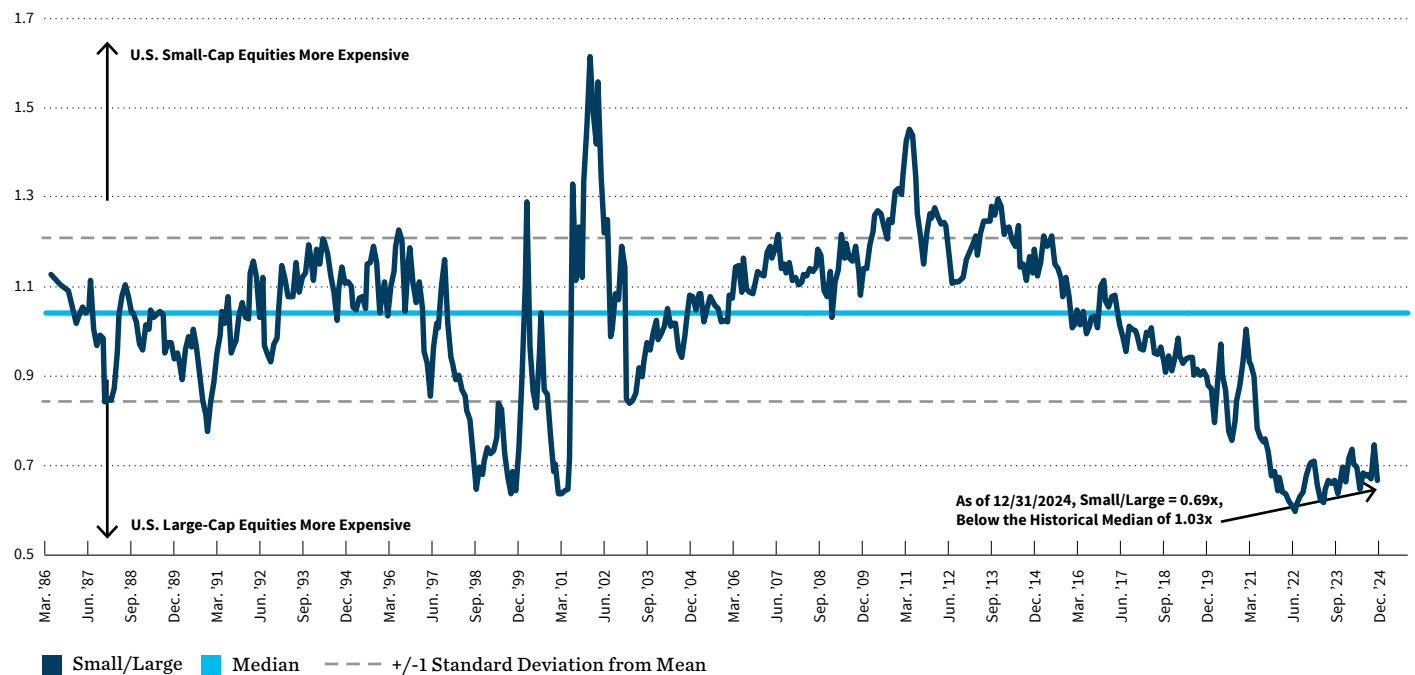
Small-cap stocks have historically commanded a slight premium over large-cap stocks, reflecting the higher growth and return potential typically associated with investing in smaller companies.

The relative decline in small-cap valuations compared to large-cap valuations over the past decade can be attributed to several factors, including subdued economic growth and slower earnings growth for small caps compared to large caps in recent years. In contrast, the strong performance of large-cap indices has been significantly influenced by a few mega-cap stocks that have shown substantial acceleration in earnings and free cash flow growth, thereby boosting their valuations.

Exhibit 1 shows that current relative valuations for small caps are near multi-decade lows, representing one of the most significant discounts in more than 35 years compared to large caps.

**EXHIBIT 1**

**Relative Forward P/E Ratio: Small- vs. Large-Cap Stocks**



Sources: Bank of America Merrill Lynch and William Blair, as of December 31, 2024. Valuation methodology excludes unprofitable companies. Small-cap equities are represented by the Russell 2000 Index; large-cap equities are represented by the Russell Top 200 Index. See back page for index definitions. A direct investment in an unmanaged index is not possible.

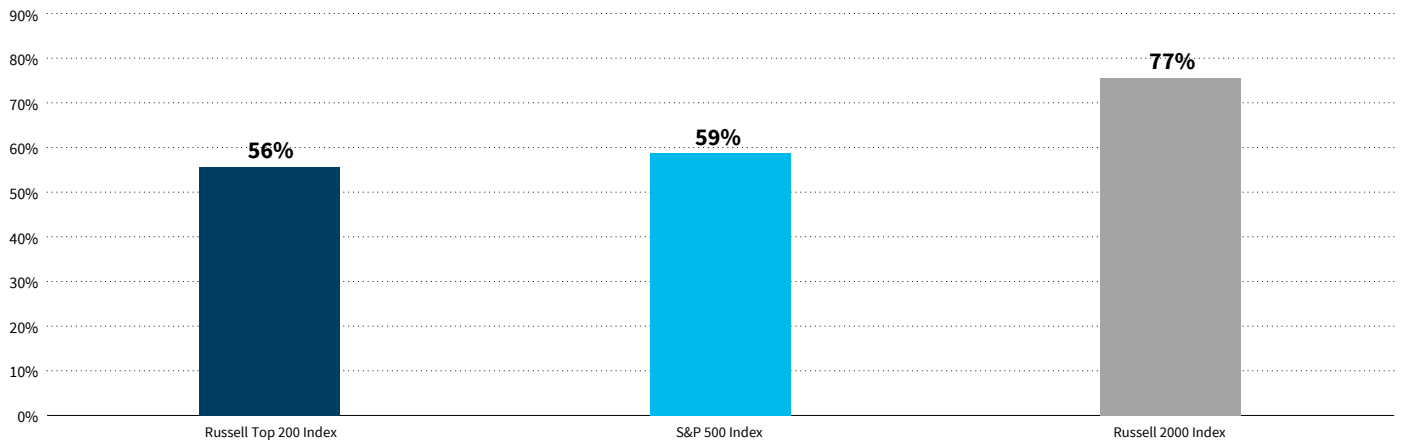
**Pro-Business Policies**

The Trump administration appears poised to extend and potentially expand the Tax Cuts and Jobs Act (TCJA) from its first term. This change should help avert a fiscal drag on growth that would likely occur if the TCJA were allowed to expire.

The Trump administration’s “America first” focus should provide a strong backdrop for domestically oriented small-cap stocks, which generally have a higher percentage of their revenues generated in the United States than large-cap stocks.

**EXHIBIT 2**

Small Caps More Domestically Focused Than Large Caps (Percentage of U.S. Revenue)



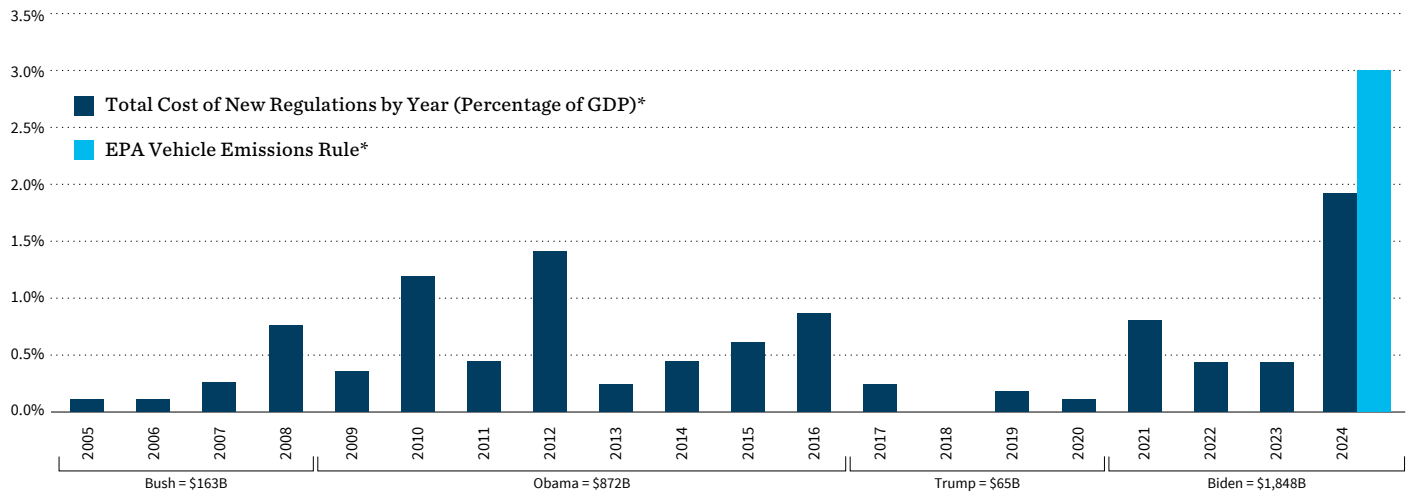
Sources: FactSet and William Blair, as of December 2024.

### Deregulation and M&A Activity

The current administration's focus on easing regulations and enacting cost-cutting measures is expected to remove barriers for businesses. A less regulated environment allows businesses to operate more efficiently, fostering improved growth and profitability. We believe this dynamic should serve as a tailwind to smaller-cap companies. Exhibit 3 shows the projected cost of new regulations introduced in each calendar year as a percentage of U.S. gross domestic product (GDP) under previous administrations.

EXHIBIT 3

### Total Cost of New Regulations by Year (Percentage of GDP)

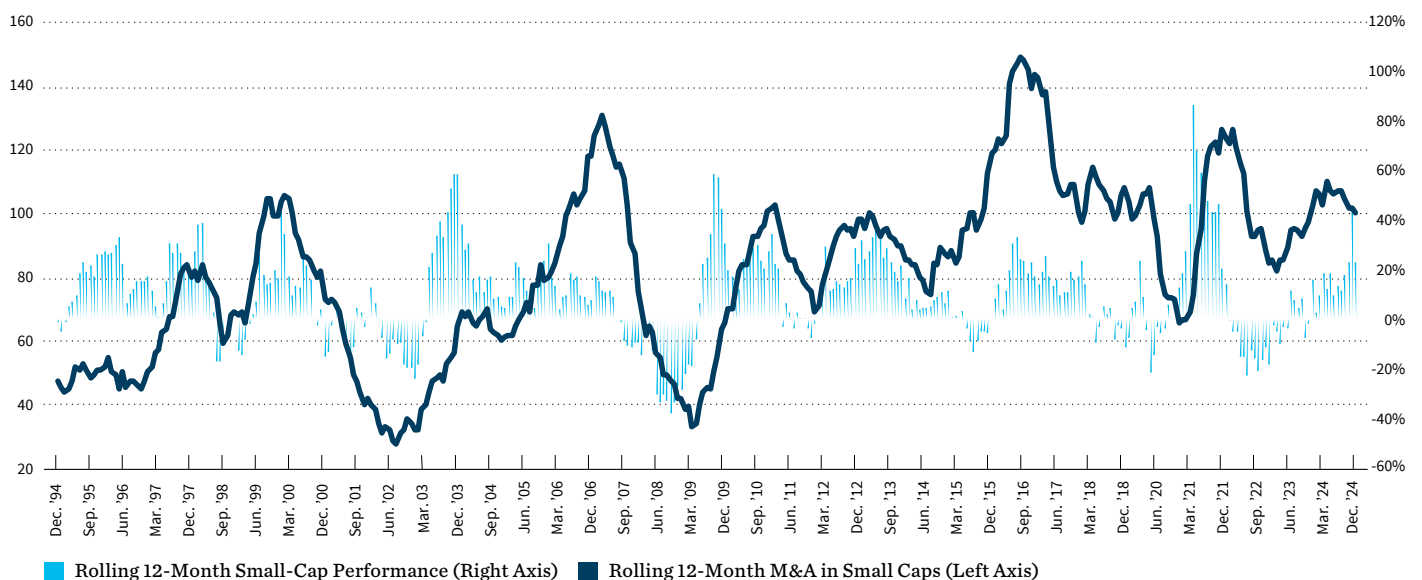


Sources: Piper Sandler, Doug Holtz-Eakin, American Action Forum, and William Blair, as of December 2024. Estimated cost/savings values are based on proposed and final rules published in the Federal Register that include a quantified economic impact or paperwork burden estimate. \*Projected cost of new regulations over a 10-year period.

Together with a less onerous regulatory environment, strong balance sheets and attractively valued smaller-cap stocks have produced more favorable conditions for M&A activity. Last year, M&A activity rose to levels that were above long-term averages. Historically, periods of heightened M&A activity have been associated with outperformance in the small-cap equity market.

EXHIBIT 4

### M&A Activity and Small-Cap Performance



Sources: FactSet, Bloomberg, FTSE Russell, and Jefferies, as of December 2024. Past performance is not indicative of future returns. M&A refers to number of deals announced in the Russell 2000 Index (rolling 12 months). Small cap is represented by the S&P 600 Index. A direct investment in an unmanaged index is not possible.

We also believe smaller-cap companies are well positioned to benefit from the substantial capital that several mega-cap technology firms have invested in building infrastructure related to artificial intelligence (AI).

Large hyperscalers, or companies that operate large data centers—such as Alphabet, Amazon, Apple, Meta Platforms, and Microsoft—have committed significant resources to developing the infrastructure to help drive AI-related applications. Looking at 2025 alone, these hyperscalers are projected to increase their capital expenditures (capex) by more than 25% year-over-year, bringing their total capex spend for the year to more than \$300 billion.

We believe these investments are poised to directly benefit some smaller-cap companies that provide products or services required for the infrastructure build. As the AI landscape shifts from infrastructure buildout by these large hyperscalers to revenue-generating opportunities, we believe smaller-cap companies can potentially capitalize on new AI-driven products, services, and markets, positioning themselves to take advantage of emerging growth opportunities.

**Resilience During Economic Recoveries**

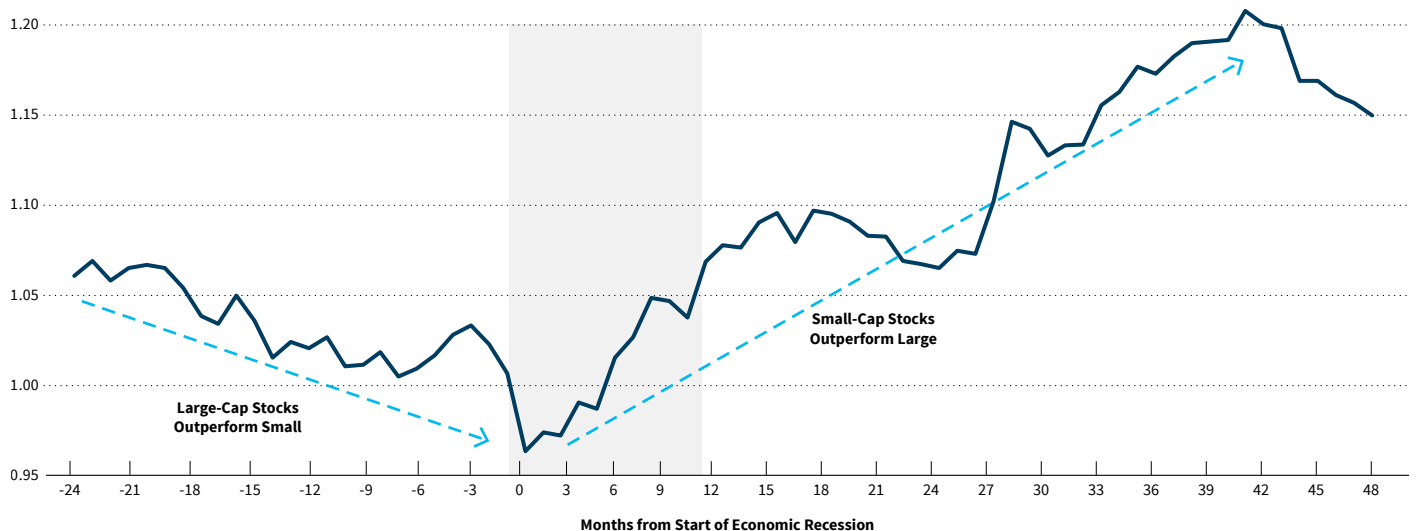
Market behavior can be radically influenced by a host of unpredictable events, such as geopolitical turmoil, government trade policy, and fiscal or monetary responses. While it is possible that the current administration’s tariff policies could lead to a recession, small-cap equities have historically exhibited strong performance during economic recoveries, frequently positioning investors more favorably after a recession than they were before.

For instance, as the chart below illustrates, large-cap stocks have historically outperformed small-cap stocks in the periods leading up to recessions. However, this trend has consistently reversed almost immediately once a recession has begun, with small caps subsequently outperforming large caps in the ensuing three years.

Although we refrain from giving economic predictions, the historical outperformance of small caps following recessions makes a strategic allocation to this asset class a compelling consideration given today’s uncertain environment.

**EXHIBIT 5**

**Small- vs. Large-Cap Average Relative Performance**  
(Last Six Recessions, 1980-Present)



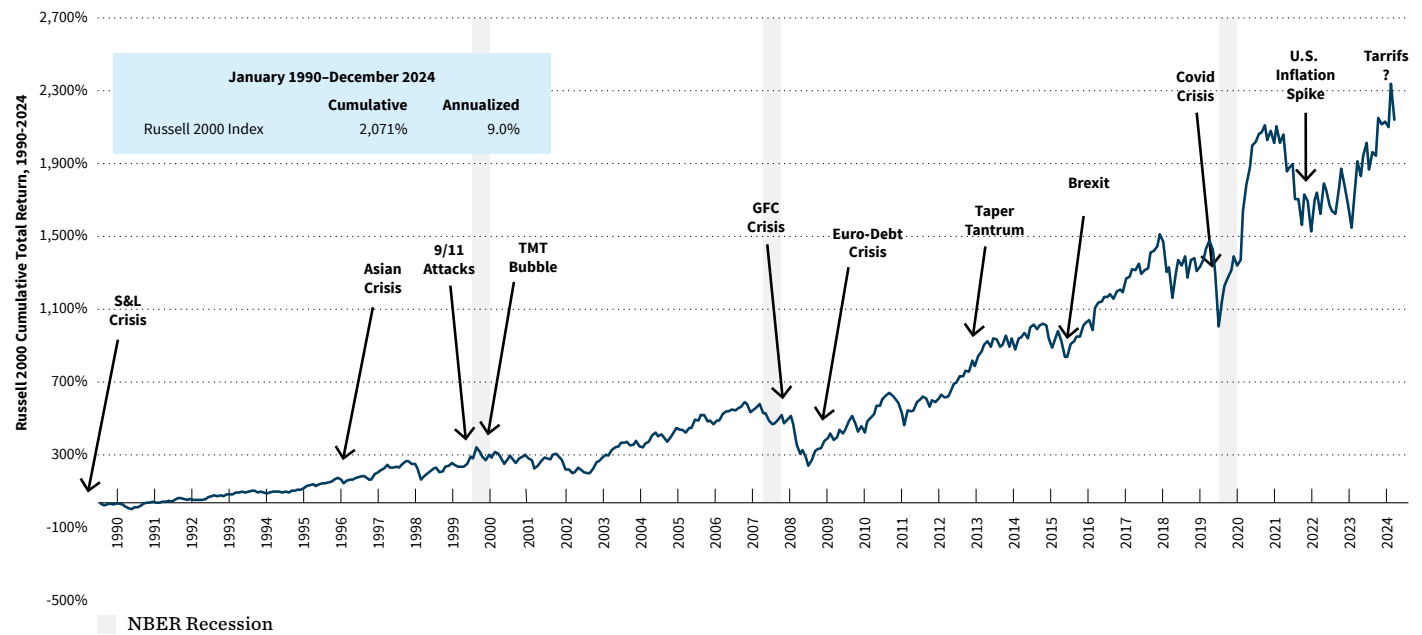
Sources: William Blair and Bloomberg, as of October 31, 2023. Past performance is not indicative of future returns. A direct investment in an unmanaged index is not possible. Small cap is represented by the Russell 2000 Index. Large cap is represented by the S&P 500 Index.

### Small Caps: Built for the Long-Term

While it is easy to get unnerved by the endless barrage of daily headlines, we encourage investors to zoom out and take a long-term perspective when it comes to investing in small caps. Over the past 35 years, in the face of several calamitous events (including the collapse of the tech bubble, the global financial crisis, and the COVID-19 pandemic), the Russell 2000 Index has generated a cumulative return of more than 2,000%, compounding at an annual rate of 9%. Throughout the period, investors were forced to navigate temporary market setbacks but were rewarded for their patience with strong long-term returns.

#### EXHIBIT 6

### Taking the Long-Term Perspective in Small Caps



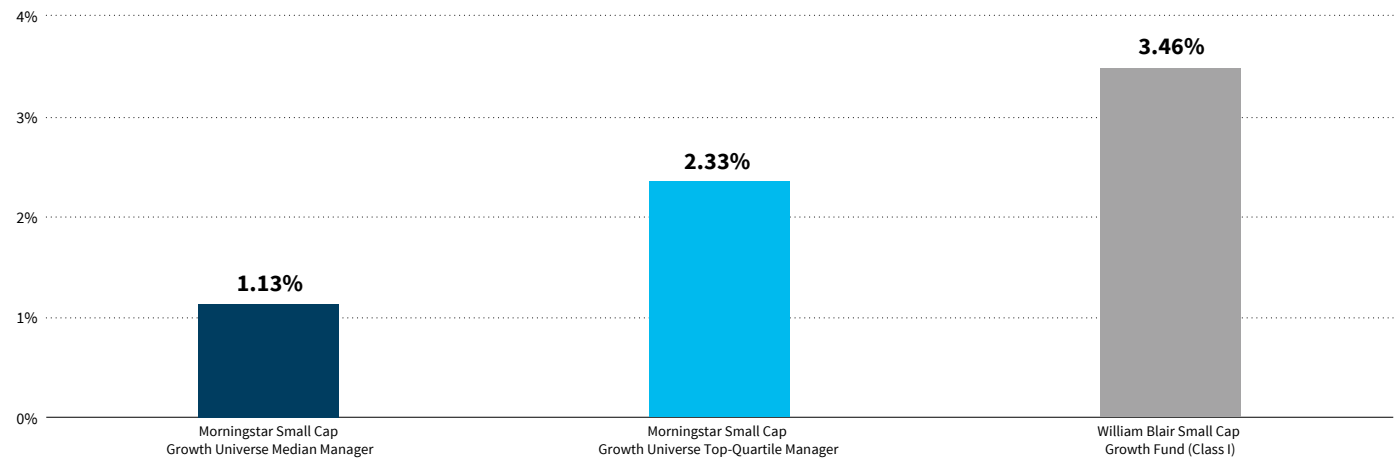
Source: FactSet, as of December 31, 2024. Past performance is not indicative of future returns. A direct investment in an unmanaged index is not possible.

**Active Management Edge**

Small caps have historically been a fertile ground to generate excess returns over time. In general, they have less analyst coverage and are more prone to market inefficiencies. Active managers can thus leverage in-depth research and insights in seeking to identify undervalued or mispriced opportunities in the small-cap space.

EXHIBIT 7

Small-Cap Growth Active Manager Annualized Excess Return vs. Russell 2000 Growth Index (10-Year Period Ending 6/30/25)



Sources: Morningstar (Small Cap Growth Universe) and William Blair, as of June 30, 2025. **Past performance is not indicative of future returns.** A direct investment in an unmanaged index is not possible.

William Blair’s Small Cap Growth Fund is driven by our comprehensive, bottom-up research approach. The strategy focuses on identifying quality growth companies and capitalizing on market inefficiencies. Three key characteristics often differentiate the strategy from other small-cap growth managers: (1) greater valuation sensitivity while still maintaining growth in line with or exceeding the Russell 2000 Growth Index; (2) a bias toward smaller market caps; and (3) a contrarian bias. This fundamental approach has delivered a compelling mix of strong relative performance and superior risk-adjusted returns over time.

EXHIBIT 8

William Blair Small Cap Growth Fund Performance Statistics  
(Class I Annualized; as of June 30, 2025)



ANNUALIZED PERFORMANCE (AS OF JUNE 30, 2025)

	1-Year	3-Year	5-Year	10-Year	Since Inception on 12/27/99
William Blair Small Cap Growth Fund (Class I)	4.85%	12.76%	10.79%	10.60%	11.57%
Russell 2000 Growth Index	9.73%	12.38%	7.42%	7.14%	5.90%

Expense ratio: gross, 1.12%; net, 0.99%. The Fund’s Adviser has contractually agreed to waive fees and/or reimburse expenses to limit fund operating expenses until 4/30/26. 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 website at [www.williamblairfunds.com](http://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. The benchmark shown represents the Fund’s performance benchmark, which is different from the Fund’s regulatory benchmark. The Fund’s regulatory benchmark is the Russell 3000 Index and is included in the Fund’s prospectus. The Fund’s prospectus can be found here. Morningstar Ranking: Morningstar Percentile Rankings are based on the Fund’s total return (excluding sales charge) relative to all the funds in the same Morningstar category, where 1 is the highest and 100 is the lowest percentile rank. Ratings and rankings are one measure of performance. Some of our Funds have experienced negative performance for the time periods shown. For the most current performance, please visit [williamblairfunds.com](http://williamblairfunds.com).

## Conclusion

The investment landscape for small-cap equities is evolving, with several positive factors contributing to what we believe is an increasingly favorable environment. These include the new administration's focus on pro-U.S. policies coupled with a less restrictive regulatory backdrop that may spur increased mergers and acquisitions (M&A), with quality growth companies potentially serving as the primary beneficiaries. Additionally, should the economy soften, small-cap stocks' potential for resilient returns in the recovery phase could significantly benefit investors over the long-term. Combined with attractive relative valuations, we believe these dynamics present a compelling opportunity for investors to consider small-cap stocks as part of a diversified investment strategy.

## Important Disclosures

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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Investing involves risks, including the possible loss of principal. Equity securities may decline in value due to both real and perceived general market, economic, and industry conditions. Investing in small-capitalization companies involves special risks, including higher volatility and lower liquidity. Small-cap stocks are also more sensitive to purchase/sale transactions and changes in the issuer's financial condition. Different investment styles may shift in and out of favor depending on market conditions.

Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Investments focused in the United States will have greater exposure to the market, political and economic risks of that country than if it was more diversified across a number of countries. Diversification does not ensure against loss. Past performance is not indicative of future returns.

The **Russell Top 200 Index** is an unmanaged index registered to Russell/Mellon. It measures the performance of the 200 largest companies in the Russell 3000 Index. It is a capitalization-weighted index as calculated by Russell on a total return basis with dividends reinvested. The **Russell 2000 Index** is an unmanaged index registered to Russell/Mellon. It measures the performance of the 2,000 smallest companies in the Russell 3000 Index. It is a capitalization-weighted index as calculated by Russell on a total return basis with dividends reinvested. The **Russell 2000 Growth Index** measures the performance of Russell 2000 companies with above average price-to-book ratios and forecasted growth rates. The **S&P 500 Index** is a capitalization-weighted index designed to measure the performance of approximately 500 large-cap U.S. publicly traded companies. It is widely considered a benchmark indicator of the overall U.S. stock market and economy. The **S&P 600 Index** is designed to track the small-cap market segment. Indices are unmanaged and do not incur fees or expenses. A direct investment in an unmanaged index is not possible. **Information ratio** is a measure of risk-adjusted return measuring the annualized excess return of the portfolio relative to a respective benchmark, divided by the annualized tracking error relative to that same benchmark. **Standard deviation** is a statistical measurement of variations from the average.

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