William Blair

3Q 2017

Fund Manager Commentary
William Blair Macro Allocation Fund

Performance Summary

The Macro Allocation Fund (Class N) completed the quarter with positive performance driven by both market and currency exposures. Within markets, the Fund benefitted from long exposures to European equities as well as long exposures within emerging equities. Detracting from performance in market strategy was a short exposure to Japanese equities and sector positioning within U.S. equities. Within currencies, long exposures to emerging currencies added value, particularly the Colombian peso and Chinese yuan, while short exposures such as the euro and Czech koruna detracted.

Fund Positioning

We now feel less compelled to maintain our strategies as de-risked as they previously were, in respect of opportunities that have been affected by shorter-term macro-thematic and geopolitical headwinds. Many recent moves in our Fund have been in response to relative price movements across our universe, rather than a change in the "Why" stage of our investment process.

Market strategy remains long of equities, with an effective exposure of +24%, unchanged during the quarter. The Fund remains long of Europe, U.K., and emerging equities. Market strategy is slightly short of fixed income with a net exposure of -5%, with long exposure to emerging market debt offset by short exposure to European government bonds.

Within currencies, strategy remains long of emerging currencies and short of developed currencies, in line with fundamental valuation. Our long positions remain in emerging currencies such as the Chinese yuan, Philippine peso, and Indian rupee with our largest short positions in the U.S. dollar, Swiss franc, and New Zealand dollar.

Fund Exposures (%) as of 9/30/17[1]

Equity	**23.8**
U.S.	-1.5%
Canada	-3.5%
Europe (ex-U.K.)	14.5%
United Kingdom	7.2%
Asia Developed	-1.2%
Emerging	8.3%
Fixed Income	**-4.9**
U.S.[2]	0.2
Developed (ex-U.S.[2])	-8.8
Emerging	3.7
Unencumbered Cash[3]	**33.1**
Credit Detail	
U.S. Investment Grade Spread	5.5
U.S. High Yield Spread	-0.9
European Investment Grade Spread	2.1
Active Currency	
U.S. Dollar (USD)	-11.3
Canada Dollar (CAD)	-3.0
Other Americas	13.5
Euro (EUR)	-6.0
Switzerland Franc (CHF)	-8.0
Great Britain Pound (GBP)	5.0
Other Europe	-1.5
Australia Dollar (AUD) and New Zealand Dollar (NZD)	-10.5
Japan Yen (JPY)	-1.5
China Yuan (CNY)	8.5
Asia (Excluding JPY and CNY)*	6.8
Other	8.0

FOOTNOTES TO FUND EXPOSURE TABLE

***Select Exposures**	
India Rupee (INR)	7.0
Philippine Peso (PHP)	9.5
Singapore Dollar (SGD)	6.5

Review & Outlook

Equities around the world generally rallied in the third quarter, with riskier emerging markets beating developed markets, as has been mostly the case through 2017. Within developed equity markets, the United States, Japan, and Europe rose a modest amount, with

[1] 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.

[2] Reflected as 10-year exposures.

[3] Unencumbered cash is residual cash and equivalents.

the majority of the rise occurring in September. Ten-year government bond yields fell in the G3 markets, though they retraced the drop during September. The U.S. dollar continued its fall against most developed and emerging currencies. Market volatility was generally low, experiencing only a few short-lived upward spikes caused by hostile nuclear demonstrations by North Korea and associated geopolitical rhetoric from the United States.

Led by manufacturing and consumer spending, global growth data continued to show a modestly rising trend from its low point at the beginning of 2016. This data both lifted expectations and led to less accommodative monetary signals from most central banks (apart from the Bank of Japan). The OECD stopped short of referring to the situation as a self-sustaining growth upswing. Global trade values have increased impressively over the last year, but much of this reflects higher prices of traded goods (particularly commodities), rather than any surge in volume. The most striking upward revisions to growth forecasts occurred in the eurozone and China. In both cases, these developments reflect fading macro-thematic headwinds that had significantly impaired attractive equity market opportunities in prior years. As India's 2016 "demonetization" exercise has proved to have little adverse effect, Indian economic growth expectations now reflect widespread optimism. Contrastingly, growth forecasts in Latin America have weakened, much of that influenced by its largest economic region, Brazil.

Of the G7 central banks, only the U.S. Federal Reserve and the Bank of Canada have raised short-term interest rates, whereas the eurozone, Japan, and the United Kingdom have kept rates at historic (near zero) lows. The European Central Bank (ECB) has hinted at a further wind-down of its monthly asset purchases, but there has been no announced schedule for this following its initial "taper" in late 2016. The ECB's hints were sufficient to rally the euro in the quarter. The Bank of England's interest rate setting committee boosted expectations of an interest rate rise at its meeting in August. Although the decision was not taken in the quarter, the pound rose to its highest level (against the U.S. dollar) since the eve of 2016's Brexit referendum. Japan, where inflation expectations remain very low, had no apparent change in guidance about monetary policy. All the foregoing changes in policy and communication could be regarded as relatively minor, though they command high attention among investors and are among the largest movers of market prices.

There are two dominant reasons why market participants give intense scrutiny to central bank communication in the present environment. One is the extreme levels to which monetary conditions have been loosened—particularly in the developed world—in recent years. Investors are dealing with highly unconventional policies (zero or negative interest rates in some cases, asset purchases, etc.) compared with policies in prior decades. The other is the more forward-looking communication of central banks, whereas in the past communication was confined largely to announcing that interest rates were either up or down. In respect of the first reason—unconventional policy tools—the short-term investment dynamics following such policies are largely the same as they have always been (and relative policies continue to have a similar effect on exchange rates). Importantly, we continue to work under the assumption that asset prices—bonds and equities—would probably not be as high as they are in the absence of these policies. But, because of the second aspect of policy communication, we doubt the likelihood of substantial and sustained downside market shocks wrought by an *unanticipated* withdrawal of monetary looseness. Our rationale is that central banks have progressively moved toward long-range, forward-looking communication out of a desire to reduce market uncertainty—or to increase certainty—about future policy. For the most part, this has probably done little more than bring forward (in time) the market reaction-function (witness the sizable exchange rate moves that have unfolded in the last two years on statements based more about future policy settings than present ones). But it has created a situation where central banks now must strive to deliver what they have told markets to expect. This is not always appropriate if circumstances (economic and inflation data) change from what was expected, but it counsels strongly against central banks making capricious moves regarding monetary conditions that are contrary to those that they have previously telegraphed.

Therefore, central bank support of market prices does not appear to be under much threat of a significant and near-term reduction. However, as a macro theme that pervades much of our investment universe, developed central bank policy has introduced narrowness to the range of valuation opportunities currently available. This is most evident in currencies where the valuation opportunity is dominated by a "positive carry" trade, characterized by attractive "high carry" emerging market currencies and unattractive (low carry) developed currencies. This reduced breadth has kept us relatively cautious in respect of active currency risk, although we are responding to the large opportunity by steadily increasing exposures throughout 2017. With respect to equities, we remain long of attractive eurozone and U.K. equities, but we have sought protection from large unanticipated adverse moves with nonlinear positions where the cost of such protection is not high.

Populism remains an influential macro theme affecting market and currency prices, but its intensity has dropped significantly since 2016. Its influence was nonetheless evident in Germany's federal election in which the country's staunchly anti-immigration party AfD experienced a surge in support, which allowed it into parliament for the first time. Support was significantly eroded from traditional parties, including Chancellor Angela Merkel's Christian Union. However, Ms. Merkel will undoubtedly serve a fourth term as chancellor in a coalition that is yet to be decided (but almost definitely excluding AfD), meaning that investment implications do not appear significant for this event. Elsewhere in Europe, the U.K.'s negotiations with the European Union (EU) over Brexit now point toward the process taking an extended period of time, likely involving a transition period after the deadline of March 2019. This reflects U.K. Prime Minister Theresa May's weak bargaining position compared with that of the EU, the weak position itself a result of the fragility of her government after the recent snap election. Although this prolongs uncertainty to some extent, our investment conclusion is, as it has been previously, that the adverse geopolitical risks to U.K. markets and the pound are relatively small today. Consequently, we are not cautious in our strategy response to the attractive valuation of both U.K. equities and the pound.

With respect to the North Korean threat, our response has been to dampen exposure to the South Korean won (no longer a fundamentally attractive currency anyway) and its equity market. We view the North's primary geopolitical objective as being survival, which motivates its desire to demonstrate nuclear capability, but to likely stop short of provoking aggressive responses from the United States or China (North Korea is likely more interested in maintaining disunity between these powers in respect of reaction).

Our analysis and its conclusions—that several of the headwinds that weighed against attractive investment opportunities (by increasing risk and adversely affecting expected compensation) have recently faded—are consistent with more subdued volatility in markets and currencies across our investment universe. Notwithstanding this, our forward-looking risk models do not assume that the very low levels of volatility that have been observed in market and currency prices during current and recent quarters are sustainable in the longer term. Consequently, and as mentioned above, we have taken advantage of the low price of some options to re-engage some downside protection within our market exposures.

It is our view that the challenge of navigating these risks continues to be a significant shift in the investment landscape that has occurred in the last decade and our investment process, dialogue, and decision making is well equipped to meet the challenges we now face. We remain vigilant as we assess new and relevant information to capture future investment opportunities in a timely manner and will continue balancing the relationship between risk taken and compensation expected.

INVESTMENT PERFORMANCE % (as of 09/30/17)

	QTR	YTD	1Y	3Y	5Y	Since Incep.
Class I (SI: 11/29/11)	1.88	4.83	5.53	-0.37	3.99	5.68
Class N (SI: 11/29/11)	1.72	4.50	5.20	-0.66	3.72	5.40
BofA Merrill Lynch 3-Month U.S. Treasury Bill Index	0.26	0.57	0.66	0.32	0.22	0.20

EXPENSE RATIOS (%)**

	Gross Expense	Net Expense
Class I	1.27	1.25
Class N	1.53	1.50

**Expenses shown are as of the most recent prospectus. The net expense ratio reflects that the Fund's Adviser has contractually agreed to waive fees and/or reimburse expenses to limit fund expenses until 4/30/2018. The investor will pay the net expense ratio. The Adviser has contractually agreed to waive fees and/or reimburse expenses to limit the Fund's operating expenses (excluding acquired fund fees and expenses, borrowing costs, brokerage commissions, taxes, other investment-related costs and extraordinary expenses) to 1.10% and 1.35% of average daily net assets for Class I and Class N shares, respectively, until 4/30/2018. Please refer to the Fund's Prospectus for more information on the Fund's expenses.

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.

DISCLOSURES

The Fund involves a high level of risk and may not be appropriate for everyone. You could lose money by investing in the Fund. There can be no assurance that the Fund's investment objective will be achieved. The Fund holds equity exposures, which may decline in value due to both real and perceived general market, economic, and industry conditions. Investing in bond markets is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk; investments may be worth more or less than the original cost when redeemed. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. Investment return, principal value, and yields of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Investments are subject to a number of types of risk, including counterparty and contractual default risk. For a more detailed explanation and discussion of these and other risks, please read the Fund's Prospectus. The Fund is designed for long-term investors.

The Bank of America Merrill Lynch 3-Month U.S. Treasury Bill Index measures total return on cash, including price and interest income, based on short-term government Treasury Bills of about 90-day maturity. 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, which you may obtain by calling 1-800-742-7272. Read it carefully before you invest or send money. Investing involves the risk of loss.

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