William Blair

4Q 2017

Fund Manager Commentary
William Blair Low Duration Fund

Fund Performance

The William Blair Low Duration Fund (Class N shares) outperformed its benchmark, the Bank of America/Merrill Lynch 1 Year Treasury Note Index, during the fourth quarter.

A couple of factors contributed to the Fund's performance relative to the Index during the quarter. The Fund experienced favorable results from its positions in floating-rate corporate and asset-backed securities. In addition, the Fund's positioning in higher-coupon segments of agency mortgage-backed securities contributed to performance after controlling for the effects of duration. The Fund's interest rate positioning detracted from performance, as the Fund maintained some exposure to securities with durations longer than 1.0 year and short-term interest rates rose during the quarter.

Top 10 Holdings[1] as of 12/31/17

Company Name	% of Fund
Fannie Mae Pool, 6.00% due - 11/1/24	8.6%
Fannie Mae Pool, 5.50% due - 12/1/41	2.9%
Fannie Mae Pool, 4.50% due - 2/1/27	2.4%
Fannie Mae Pool, 6.00% due - 1/1/42	2.3%
Fannie Mae Pool, 4.00% due - 2/1/29	2.0%
Freddie Mac Gold Pool, 6.00% due - 12/1/38	1.8%
Fannie Mae Pool, 7.00% due - 12/1/37	1.7%
BA Credit Card Trust, 1.86% due - 6/15/21	1.7%
BMW Floorplan Master Owner Trust, 1.98% due - 7/15/20	1.6%
Verizon Owner Trust 2017-3, 1.77% due - 4/20/22	1.5%
Total Top 10	**26.5%**

Market Review

The Bloomberg Barclays U.S. Aggregate Index advanced 0.39% during the fourth quarter of 2017, as rising short- and intermediate-term rates were offset by declining long-term rates, narrowing risk spreads, and earning coupon income. All major sectors of the Index experienced positive total returns during the fourth quarter.

The Federal Open Market Committee (FOMC) met twice during the fourth quarter, and the Committee increased the target range of the federal funds rate by 0.25% to 1.25% - 1.50%. This marked the third hike of the fed funds rate during 2017. At the end of the year, the fed funds futures market carried an implied probability that the FOMC will raise the target range of the federal funds rate twice during 2018.

The FOMC began to execute its plan to gradually shrink its balance sheet during the fourth quarter. The schedule permitted the FOMC to allow the balance sheet to reduce by $10 billion per month from October 2017 – December 2017: 60% of that amount is the maximum for Treasury securities and 40% of that amount is the maximum for agency securities (agency debt plus agency MBS). This monthly cap rises to $20 billion per month during January 2018 – March 2018, $30 billion per month during April 2018 – June 2018, $40 billion per month during July 2018 – September 2018, and $50 billion per month after September 2018, with the cap for Treasury securities and agency securities at 60% and 40%, respectively, of the total cap amount for each time period.

Despite the FOMC's plans to reduce the balance sheet, curb its purchases of longer-term instruments, and continue hiking the federal funds rate, interest rate volatility has been low and subdued. One important reason volatility has remained low is that the FOMC communicated its plans well with adequate advance notice, and its plans do not involve selling securities into the market.

[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.

Agency mortgage-backed securities generated positive total returns and experienced narrowing risk spreads during the fourth quarter. Among the best-performing segments of the market were lower-coupon 30-year pools that the FOMC has targeted in "FedTrade" to suppress mortgage rates, such as 30-year 3.0%, 3.5%, and 4.0%, as the market took comfort in the fact that the FOMC's plans for balance sheet reduction continue to involve purchases of agency MBS, at least for the time being, and no selling of securities.

Corporate bonds have generated strong returns during the quarter, both total returns and duration-adjusted returns. Corporate bonds of all credit qualities, tenors, and sectors produced gains. Risk spreads narrowed and approached levels that have not been experienced since prior to the Global Financial Crisis of 2008. The new issue market is robust and open for companies to access capital in the bond markets.

Outlook

We believe that the Federal Open Market Committee (FOMC) will continue to raise the federal funds rate at a measured pace over the next 12 months. The U.S. economy is growing; forecasters predict a real GDP growth rate of approximately 2.5%-3.0% during 2018. In addition, the U.S. labor market is adding jobs and the unemployment rate is at 4.1%. However, recent indicators of inflation have revealed slower-than-desired inflation. Estimates of wage inflation are between 3.0%-3.5% while estimates of core personal consumption expenditures (PCE) have been 1.5%-2.0%. Macroeconomic theory predicts that a robust labor market creates wage inflation, which in turns spurs broader inflation. We believe that the FOMC will raise rates so long as inflationary pressures do not deteriorate.

We believe that the FOMC's plans to reduce the size of the Fed's balance sheet will be executed with little disruption to the markets. We believe this is attributable, in part, to strong communication efforts, adequate advance notice, and the absence of security sales to reduce the balance sheet. In addition, remarks by FOMC members indicate that the FOMC will err on the side of conservatism, with the permissible reduction being relatively small in scale and subject to a monthly cap. However, we believe the lower-coupon MBS that was purchased by the Fed will underperform higher-coupon alternatives when the FOMC ends their campaign of purchasing agency MBS.

U.S. Treasury Inflation-Protected Securities (TIPS) have market-implied breakeven inflation rates that are at levels near the lower bound of the FOMC's stated target range of 2.0%–2.5%. We believe TIPS are an attractive alternative to fixed-rate Treasuries to mitigate the effects of rising rates driven by accelerating inflationary pressures.

We believe that spread sectors remain attractive relative to Treasuries over the intermediate-to-long term. Corporate risk premiums are at levels slightly below their longer-term averages, but we believe opportunities remain. Risk premiums of higher-coupon segments of the agency MBS market remain attractive. In addition, we believe Treasuries are likely to struggle as the FOMC continues to tighten the fed funds rate.

We believe that higher-coupon segments (coupon rates of 5.0% and above for 30-year) of the agency MBS market offer compelling value. These segments of the agency MBS market offer attractive spreads and a defensive duration profile. The key risk of these securities is that the underlying borrowers are in-the-money to refinance their loan. We believe this risk can be mitigated by focusing on pools comprised of borrowers that do not have the economic incentive to refinance their loans: low-loan balance pools.

We believe that opportunities remain in the corporate bond market despite risk spreads being slightly below their longer-term averages. We remain concerned about company-specific risks, including shareholder-friendly activities such as leveraged finance mergers and acquisitions, large share repurchases, and special dividends. Importantly, we do not believe the market will enter a period of excessive LBO activity.

INVESTMENT PERFORMANCE % (as of 12/31/17)

	QTR	YTD	1Y	3Y	5Y	Since Incep.
Class I (SI: 12/01/09)	0.16	0.91	0.91	0.87	0.67	1.18
Class N (SI: 12/01/09)	0.24	0.84	0.84	0.67	0.52	1.03
Bank of America Merrill Lynch 1-Year U.S. Treasury Note Index	0.01	0.57	0.57	0.49	0.38	0.42

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	0.59	0.50
Class N	0.83	0.65

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 4/30/18.

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.

DISCLOSURE

The Fund's returns will vary, and you could lose money by investing in the Fund. The Fund's investments in obligations issued or guaranteed by U.S. Government agencies or instrumentalities may not be backed by the full faith and credit of the United States and may differ in the degree of support provided by the U.S. Government. As interest rates rise, bond prices will fall and bond funds become more volatile. The Fund is subject to credit risk. The Fund's net asset value and total return may be adversely affected by the inability of the issuers of the Fund's securities to make interest payments or payment at maturity. 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. The Fund's investments in collateralized mortgage obligations are subject to prepayment and extension risk. Prepayment of high interest rate mortgage-backed securities during times of declining interest rates will tend to lower the return of the Fund and may even result in losses to the Fund if the prepaid securities were acquired at a premium. Slower prepayments during periods of rising interest rates may increase the duration of the Fund's mortgage-backed securities and asset-backed securities and reduce their value. This is not a money market fund. Rule 144A securities are not registered for resale in the general securities market and may be classified as illiquid. It may not be possible to sell or otherwise dispose of illiquid securities both at the price and within a time period deemed desirable by the Fund.

The Bank of America Merrill Lynch 1-Year U.S. Treasury Note Index is comprised of a single U.S. Treasury Note issue purchased at the beginning of the month and held for a full month. Each month the index is rebalanced and the issue selected is the outstanding U.S. Treasury Note that matures closest to, but not beyond one year from the rebalancing date. 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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