William Blair

2Q 2018

Fund Manager Commentary
William Blair Low Duration Fund

Fund Performance

The William Blair Low Duration Fund (Class N shares) underperformed its benchmark, the Bank of America/Merrill Lynch 1 Year Treasury Note Index, during the second quarter. The Fund's interest rate exposure hindered performance during the quarter, as the Fund had some exposure to short-term rates that rose higher than the Index. Positioning within mortgage-backed securities detracted from the Fund's performance, as the Fund held positions in higher-coupon segments of the market that underperformed the Index. The Fund held positions in floating-rate corporate and asset-backed securities that contributed to results during the quarter.

Top 10 Holdings[1] as of 6/30/18

Company Name	% of Fund
Fannie Mae Pool, 6.00% due - 11/1/24	9.4%
Freddie Mac Gold Pool, 6.00% due - 4/1/40	6.5%
Fannie Mae Pool, 5.50% due - 12/1/41	3.6%
Fannie Mae Pool, 6.00% due - 4/1/41	3.4%
Fannie Mae Pool, 4.50% due - 2/1/27	2.8%
Fannie Mae Pool, 6.00% due - 1/1/42	2.7%
Fannie Mae Pool, 4.00% due - 2/1/29	2.3%
Fannie Mae Pool, 7.00% due - 12/1/37	2.1%
Verizon Owner Trust 2017-3, 2.35% due - 4/20/22	2.0%
Capital One Multi-Asset Execution Trust, 2.52% due - 2/15/22	1.8%
Total Top 10	**36.6%**

Market Review

Investment-grade bonds declined 1.62% during the first half of 2018, as interest rates rose and risk spreads widened. While the combination of rising interest rates and increasing risk spreads is not unprecedented, risk spreads increased by a magnitude that was larger than any other half-year period when interest rates rose simultaneously.

The Federal Open Market Committee (FOMC) increased policy rates twice during the past six months, and short-term interest rates have risen in coordination with actual and perceived FOMC rate hikes. The Fed Funds futures market carried an implied probability that the FOMC will increase the federal funds rate two additional times during calendar year 2018: in September and in December.

Meanwhile, the FOMC has simultaneously reduced its balance sheet and purchased Treasury and agency mortgage-backed securities (MBS). Although the Fed has ended its formal quantitative easing programs, the FOMC continues to purchase agency mortgage-backed securities as it receives principal and interest payments from its balance sheet holdings, a practice known as "FedTrade." The pace of purchases has slowed considerably since the FOMC began its program to reduce the size of the balance sheet. In July 2018, the FOMC will allow the balance sheet to shrink by no more than $40 billion per month, and that amount is $10 billion more than the pace of reductions during the second quarter of 2018. Recently-released FOMC minutes revealed that reinvestment purchases of agency MBS are projected to fall to zero beginning in the fourth quarter of 2018.

Longer-term Treasury rates rose year-to-date, but they rose by a smaller magnitude than short-term rates rose. As a result, the yield curve flattened and several measures indicated that the yield curve was at risk of inverting (when shorter-term rates are higher than longer-term rates). The yield curve's dynamics can be partially explained by the FOMC's simultaneous actions of raising the federal funds rate (short-term rates rose) and purchasing Treasury and agency mortgage-backed securities (longer-term

[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.

rates suppressed). Treasury Inflation-Protected Securities (TIPS) outperformed similar-maturity, fixed-rate Treasury notes and bonds as market-implied inflation expectations increased year-to-date.

Agency mortgage-backed securities experienced negative total returns and increasing risk spreads. The best-performing segments of the market were higher-coupon 30-year pools. Segments that the FOMC targeted in "FedTrade", such as 30-year 3.0%, 3.5%, and 4.0%, were among the weakest-performing segments of the MBS market year-to-date.

Corporate bonds also experienced negative total returns and increasing risk spreads year-to-date. While risk spreads widened, the most-speculative areas of the market, specifically B- and CCC-rated bonds, generated gains and outperformed higher-quality securities. Corporate bonds tied to emerging markets underperformed those domiciled in domestic markets. The most distinguishable trend in the corporate bond market during the first half of 2018 was the magnitude by which longer-term corporate bonds underperformed shorter-term corporate bonds. Corporate bond curves steepened year-to-date, perhaps as an indication that credit market participants are demanding higher risk premiums to protect against the rising-rate regime.

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 3.9%. Estimates of wage inflation are roughly 3.0%, while estimates of core personal consumption expenditures (PCE) have been roughly 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. 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 within 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 near their longer-term averages, and we believe opportunities remain after risk spreads increased year-to-date. 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 tightens the federal funds rate and reduces the scale of their asset purchases.

We believe that higher-coupon segments (30-year MBS coupon rates of 5.0% and above) 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 there are opportunities in the corporate bond market as risk spreads increased to levels close to Index's longer-term average. 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 06/30/18)

	QTR	YTD	1Y	3Y	5Y	Since Incep.
Class I (SI: 12/01/09)	0.19	0.41	1.04	0.92	1.00	1.16
Class N (SI: 12/01/09)	0.14	0.30	0.87	0.75	0.83	1.01
Bank of America Merrill Lynch 1-Year U.S. Treasury Note Index	0.40	0.65	0.92	0.64	0.49	0.47

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	0.45	0.40
Class N	0.64	0.55

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 4/30/19.

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.