William Blair

3Q 2018

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 third quarter. A couple of factors contributed to the Fund's performance relative to the Index during the quarter. The Fund's positioning in agency mortgage-backed securities (MBS) was additive to results during the quarter. The Fund emphasized higher-coupon segments that proved defensive during the rising-rate environment. The Fund's allocation to floating-rate corporate and asset-backed securities was also a source of value during the quarter. The Fund's interest rate positioning detracted from performance as short-term rates rose during the quarter.

Top 10 Holdings[1] as of 9/30/18

Company Name	% of Fund
Fannie Mae Pool, 6.00% due - 11/1/24	9.0%
Freddie Mac Gold Pool, 6.00% due - 4/1/40	6.6%
Fannie Mae Pool, 5.50% due - 12/1/41	3.7%
Fannie Mae Pool, 6.00% due - 4/1/41	3.5%
Fannie Mae Pool, 6.00% due - 1/1/42	2.8%
Fannie Mae Pool, 4.00% due - 2/1/29	2.4%
Verizon Owner Trust 2017-3, 2.44% due - 4/20/22	2.2%
Fannie Mae Pool, 7.00% due - 12/1/37	2.1%
Fannie Mae Pool, 4.50% due - 2/1/27	2.0%
HSBC Holdings plc, 4.57% due - 3/8/21	2.0%
Total Top 10	**36.3%**

Market Review

The Bloomberg Barclays U.S. Aggregate Index returned 0.02% during the third quarter of 2018, as the combination of the market's yield levels and declining risk spreads were positive effects that offset the impact of rising interest rates. The Index returned -1.60% year-to-date ending 9/30/18 as interest rates rose across all tenors.

The Federal Open Market Committee (FOMC) increased the target range of the federal funds rate by 0.25% during the third quarter, as the Committee increased the range to 2.00% - 2.25% during its September meeting. This marked the third hike of the fed funds rate during 2018, and the fed funds futures market carried an implied probability that the FOMC will raise the target range of the federal funds rate by 25 basis points one additional time during 2018: following its December meeting.

The FOMC continued to execute its plan to gradually shrink its balance sheet during the third quarter, and effective October 1, 2018 the FOMC will permit the balance sheet to shrink at its fastest pace: $50 billion per month. At this pace, the FOMC expects to slow the pace of reinvestments of agency mortgage-backed securities (MBS) to a *de minimis* level.

The agency MBS Index generated negative total returns but outperformed Treasuries on a duration-adjusted basis during the third quarter. The MBS Index also generated negative total returns year-to-date while also underperforming comparable-duration Treasuries. Over both time periods, the weak performance has been dominated by lower-coupon 30-year pools that the FOMC has targeted in its asset purchase programs to suppress mortgage rates, such as 30-year 3.0%, 3.5%, and 4.0%. Higher-coupon segments of the market have generated positive total returns, outpaced comparable duration Treasuries, and outperformed those lower-coupon segments during the third quarter and year-to-date.

Corporate bonds experienced gains and outperformed other segments of the market during the third quarter. High yield corporate bonds

[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.

continued to outperform investment-grade corporate bonds, and the most-speculative segments of the market continued to generate strong results, with CCC-rated bonds having posted a return of 5.99% year-to-date.

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 3.0% during 2018. In addition, the U.S. labor market is adding jobs and the unemployment rate is at 3.7%. Estimates of wage inflation are roughly 3.5%, 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 09/30/18)

	QTR	YTD	1Y	3Y	5Y	Since Incep.
Class I (SI: 12/01/09)	0.55	0.97	1.12	1.10	1.07	1.19
Class N (SI: 12/01/09)	0.51	0.81	1.06	0.91	0.91	1.04
Bank of America Merrill Lynch 1-Year U.S. Treasury Note Index	0.40	1.07	1.08	0.74	0.55	0.50

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.

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