Fund Manager Commentary
William Blair Income Fund

Fund Performance

The William Blair Income Fund (Class N shares) underperformed its benchmark, the Bloomberg Barclays Intermediate Government/Credit Index, during the fourth quarter.

A couple of factors detracted from the Fund's performance relative to the Index during the quarter. Interest rate positioning detracted from performance, as the Fund had less duration than the Index and interest rates declined. The Fund's sector positioning hindered results, as the Fund was underweight to fixed-rate U.S. Treasuries and overweight to agency mortgage-backed securities. An allocation to U.S. Treasury Inflation-Protected Securities (TIPS) detracted from results.

There were a couple of factors that contributed to relative performance during the quarter. The Fund experienced positive selection results from its holdings in corporate bonds issued by companies domiciled in emerging markets. In particular, a position in bonds issued by Vale was additive to results.

Top 10 Holdings[1] as of 12/31/18

Company Name	*% of Fund*
Fannie Mae Pool, 4.00% due - 2/1/29	11.7%
Fannie Mae Pool, 5.50% due - 12/1/41	8.6%
Fannie Mae Pool, 6.00% due - 11/1/24	4.2%
Fannie Mae Pool, 6.00% due - 1/1/42	3.4%
United States Treasury Inflation Indexed Bonds, 3.88% due - 4/15/29	3.1%
Fannie Mae Pool, 5.50% due - 11/1/33	2.7%
Freddie Mac Gold Pool, 6.00% due - 4/1/40	2.3%
Fannie Mae Pool, 6.00% due - 4/1/41	2.1%
Fannie Mae Pool, 4.50% due - 2/1/27	2.0%
Freddie Mac Gold Pool, 5.00% due - 6/1/41	2.0%
Total Top 10	**42.1%**

Market Review & Outlook

The Bloomberg Barclays U.S. Aggregate Index returned +0.01% during 2018, as interest rates rose risk spreads widened over the course of the year. Fixed-rate U.S. Treasuries outperformed corporate and agency mortgage-backed securities after controlling for the effects of duration.

The Federal Open Market Committee (FOMC) increased the target range of the federal funds rate four times during 2018 by 0.25% each time. The FOMC has now hiked rates nine times since 2015 when the fed funds rate was near the zero lower bound. At the end of the year, the fed funds futures market carried an implied probability that the FOMC will not change the target range of the federal funds rate during 2019.

The FOMC continued to execute its plan to shrink its balance sheet during 2018. Beginning in October, the FOMC permitted the balance sheet to shrink by no more than $50 billion per month. At the $50 billion per-month pace of reduction, the FOMC was no longer required to purchase agency mortgage-backed securities.

While the FOMC's policy decisions influenced the markets during 2018, technical factors also impacted segments of the bond market. In the beginning of 2018, U.S. corporate tax reform and repatriation created heavy demand for U.S. money market instruments and simultaneous selling pressure of securities tied to the London Interbank Offering Rate (LIBOR) as cash held in offshore accounts came back to U.S. money market funds. The U.S. Treasury's issuance pattern also influenced the market, as issuance was concentrated on short- and intermediate-term maturities that put upward pressure on those interest rates. This issuance pattern likely contributed to the flattening yield curve experienced during the year. Finally, long-term fixed income mutual funds experienced sustained outflows during the fourth quarter of the year, and those

[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.

outflows created selling pressure within segments of the bond market that increased risk spreads. These technical pressures impacted the market by increasing implied volatility and widening risk spreads.

U.S. Treasury Inflation-Protected Securities (TIPS) underperformed fixed-rate Treasuries during 2018. Market-implied breakeven inflation rates decreased to levels below the FOMC's stated objective of 2.0% - 2.5% per year.

Agency mortgage-backed securities generated positive total returns during 2018. The best-performing segments of the market were higher-coupon 30-year pools (coupons of 6.0% and 6.5%). 30-year pools with coupons of 5.5% and less earned positive total returns but underperformed similar-duration Treasuries.

Corporate bonds of all tenors, credit qualities, and sectors underperformed similar-maturity Treasury instruments during the year. Only high-quality, short-term corporate bonds generated positive total returns, and all other segments of the corporate bond market experienced negative total returns during the year. High yield corporate bonds underperformed investment-grade corporate bonds during the year.

We believe that the Federal Open Market Committee (FOMC) will be measured in its decisions to increase the target range of the federal funds rate in 2019. 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 3.8%. Estimates of wage inflation are roughly 3.9%, while estimates of core personal consumption expenditures (PCE) have been roughly 1.9%. Macroeconomic theory predicts that a robust labor market creates wage inflation, which in turns spurs broader inflation. We believe that the FOMC will not raise rates if inflationary pressures deteriorate.

We believe that the FOMC's plans to reduce the size of the Fed's balance sheet will continue to 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 below 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 above their longer-term averages, and we believe there are attractive opportunities after risk spreads increased during the year. 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 above the 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 12/31/18)

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 10/01/99)	0.04	-0.69	-0.69	1.25	1.51	3.36
Class N (SI: 10/01/90)	0.01	-0.86	-0.86	1.00	1.29	3.15
Bloomberg Barclays Intermediate Govt./ Credit Bond Index	1.65	0.88	0.88	1.70	1.86	2.90

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	0.62	0.62
Class N	0.88	0.85

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. 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. 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. The Fund is also subject to interest rate and foreign investments risk. Foreign investments often involve additional risks, including political instability, differences in financial reporting standards and less stringent regulation of securities markets. Rule144A 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. Investments with longer maturities, which typically provide higher yields than securities with shorter maturities, may subject the Fund to increased price changes resulting from market yield fluctuations. 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.

The Bloomberg Barclays Intermediate Government/Credit Bond Index indicates broad intermediate government/ corporate bond market performance. 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 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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