William Blair

1Q 2019

Fund Manager Commentary
William Blair Income Fund

Fund Performance

The William Blair Income Fund (Class N shares) outperformed its benchmark, the Bloomberg Barclays Intermediate Government/Credit Index, during the first quarter. Sector allocation contributed to results, as the Fund was underweight to fixed-rate Treasuries. Positions in bonds issued by Goldman Sachs, Toll Brothers, and ConocoPhillips contributed to results. An allocation to higher-coupon segments of the agency MBS market impacted results favorably. The Fund was underweight to BBB-rated corporate bonds, and that hindered relative results as BBB-rated corporate bonds generated strong performance.

Market Review & Outlook

The Bloomberg Barclays U.S. Aggregate Index returned 2.94% during the first quarter of 2019 as declining interest rates and narrowing risk spreads created a period of strong performance. The Index returned 4.48% over the trailing twelve months ending 3/31/19.

The Federal Open Market Committee (FOMC) kept the target range of the federal funds steady during the first quarter at its range of 2.25% - 2.50%. Market participants changed their beliefs regarding future FOMC interest rate decisions during the quarter. The fed funds futures market implied that market participants expected the FOMC to cut the fed funds rate by 25 basis points by the end of 2019 with no probability of a hike.

The FOMC also updated their plans regarding the size and composition of the balance sheet. The FOMC had been permitting the balance sheet to reduce by no more than $50 billion per month since October 2017. The FOMC will permit the balance sheet to reduce by no more than $35 billion from May – September 2019 and by no more than $20 billion starting in October 2019.

The FOMC also communicated plans to change the composition of the balance sheet so that is comprised of primarily Treasury securities. The FOMC intends to allow the balance sheet's agency mortgage-backed securities (MBS) to decline at a rate of no more than $20 billion per month, while any cash flows generated in excess of $20 billion per month will be reinvested into Treasury securities. The FOMC also stated that "limited sales of agency MBS might be warranted in the longer run to reduce or eliminate residual holdings. The timing and pace of any sales would be communicated to the public well in advance."

The agency MBS Index generated positive total returns and excess returns during the first quarter. All coupon segments of the market achieved positive total and excess returns. Within 30-year pools, 4.0%

Top 10 Holdings[1] as of 3/31/19

Company Name	***% of Fund***
Fannie Mae Pool, 4.00% due - 2/1/29	10.2%
Fannie Mae Pool, 5.50% due - 12/1/41	7.9%
Fannie Mae Pool, 6.00% due - 11/1/24	3.5%
Fannie Mae Pool, 6.00% due - 1/1/42	3.1%
Freddie Mac Gold Pool, 6.50% due - 10/1/37	2.9%
Fannie Mae Pool, 5.50% due - 11/1/33	2.5%
United States Treasury Inflation Indexed Bonds, 3.88% due - 4/15/29	2.5%
Freddie Mac Gold Pool, 6.00% due - 4/1/40	2.1%
Fannie Mae Pool, 6.00% due - 4/1/41	1.9%
Freddie Mac Gold Pool, 5.00% due - 6/1/41	1.8%
Total Top 10	**38.4%**

[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.

and 4.5% coupon cohorts underperformed most other coupon cohorts as those segments had been the current production coupons and were therefore the most sensitive to prepayment risk given the decline in interest rates.

Corporate bonds experienced gains and outperformed other segments of the market during the first quarter following the challenging environment of the fourth quarter of 2018. All major market segments experienced gains. Longer-maturity corporate bonds outperformed shorter-maturity corporate bonds, while lower-quality segments outperformed higher-quality segments. Corporate bonds domiciled in emerging markets also generated strong gains.

We believe that the Federal Open Market Committee (FOMC) will be data-dependent in its decision to change the target range of the federal funds rate in 2019. We believe that the FOMC will pay close attention to inflationary pressures in its future decisions to avoid risks associated with disinflation. The U.S. economy is growing; forecasters predict a real GDP growth rate of approximately 2.0% during 2019. In addition, the U.S. labor market is adding jobs and the unemployment rate is at 3.7%. Estimates of wage inflation are roughly 3.4%, while estimates of core personal consumption expenditures (PCE) have been roughly 1.8%. Macroeconomic theory predicts that a robust labor market creates wage inflation, which in turns spurs broader inflation.

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 and adequate advance notice. 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. We believe there are attractive opportunities in the corporate bond market, and we find risk premiums of higher-coupon segments of the agency MBS market attractive.

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. 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 03/31/19)

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 10/01/99)	2.69	2.69	2.51	1.51	1.85	3.59
Class N (SI: 10/01/90)	2.50	2.50	2.20	1.26	1.60	3.35
Bloomberg Barclays Intermediate Govt./ Credit Bond Index	2.32	2.32	4.24	1.66	2.12	3.14

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.