William Blair

Second Quarter 2021

William Blair Low Duration Fund
Fund Manager Commentary

Market Overview

Markets rallied in the second quarter, mitigating much of the negative performance from the first quarter. U.S. Treasury yields, for maturities of 5 years and out, fell as weaker-than-expected employment data reinforced the Fed's accommodative posture and "transitory" inflation narrative. In this environment, longer-maturity debt outperformed shorter-maturity while lower-rated debt continued to outperform higher-rated. The Bloomberg Barclays U.S. Aggregate Bond Index returned 1.83%, as corporate debt led the way, followed by U.S. Treasuries, and Government-related debt. Conversely, the securitized sector (ABS and MBS) lagged the broader market.

Markit PMI (Purchasing Managers Index) readings topped out in May as Services touched 70.4, and Manufacturing hit 62.1, where measurements of 50+ are considered expansionary. The pace of COVID relocation home purchases slowed, down to 5.8 million after hitting a high of 6.7 million in October. Mortgage rates on Freddie Mac 30yr conventional mortgages ended the quarter at 3.02% and refinancing slowed refinancing activity in the quarter. In a sign of strength for the consumer, credit card delinquencies continued to fall in the quarter, hitting lows in May. New vehicle purchases hit a high in April but reverted to the lower end of the 15-16 million unit range at the end of June, and the value of used cars hit their high point in May before slightly slowing in June.

The FOMC (Federal Open Market Committee) held rates steady in the period and reiterated their commitment to maintaining an accommodative stance to generate moderately higher inflation and reduce the jobless rate. The Fed did adjust the floor for overnight rates ("IOER" Interest on Excess Reserves and "RRP" Reverse Repo Program) by +5bps to address collateral needs in that segment of the market. The Federal Reserve (the "Fed") has communicated that they will not hike Fed Funds rates in 2021, and the markets are pricing in 1-2 hikes starting in 2022. The Fed's balance sheet pushed north of $8 trillion as it continued open market purchases, also known as quantitative easing, to enable looser monetary conditions. Breakeven yields, a measure of inflation expectations, fell in the quarter as those expectations were tempered by employment data which came in weaker than expected in the quarter.

Fund Performance

The William Blair Low Duration Fund (Class N shares) returned 0.25%, net of fees, for the quarter ended June 30, 2021. By comparison, the Fund's benchmark, the ICE BofAML 1-Year U.S. Treasury Note Index, returned 0.02%.

The Fund outperformed its benchmark in the period, driven by high levels of income generation by all three spread sectors. Price performance in floating-rate and investment grade corporate bonds also contributed to performance.

Conversely, an underweight in U.S. Treasuries detracted from relative performance as we used Treasuries to fund overweights in IG Corporates and agency MBS.

Top 10 Holdings[1] as of 6/30/2021

Company	*% of Fund*
Fannie Mae Pool; 7.00% due 02/01/39	3.7
Toyota Motor Credit Corporation; 7.50% due 08/01/37	3.1
United States Treasury Strip Principal; 4.00% due 02/01/35	3.0
Verizon Communications Inc.; 6.00% due 04/01/40	3.0
Fannie Mae Pool; 4.00% due 02/01/29	2.3
Freddie Mac Gold Pool; 0.00% due 08/15/21	2.1
Freddie Mac Gold Pool; 0.84% due 03/20/26	2.1
Fannie Mae Pool; 1.00% due 07/22/27	2.1
Fannie Mae Pool; 0.35% due 01/11/24	2.0
Bank of America Corporation; 6.50% due 10/01/39	2.0
Total Top 10	**25.4**

Outlook

Our base case is that the US Federal Reserve's ("Fed") FOMC will not hike rates in 2021, which will hold short-end rates to the zero lower-bound, despite recent adjustments to the floor. We believe that the FOMC will be very patient in reducing or removing stimulus and tightening monetary conditions. In this environment we continue to find that U.S. TIPS are an attractive alternative to fixed-rate Treasuries to mitigate the effects of rising rates driven by accelerating inflationary pressures.

[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.

In our opinion spread sectors remain relatively attractive to Treasuries over the intermediate-to-long term as Treasury supply has been increasing at record levels. However, in the shorter-term, if economic data disappoints to the downside, Treasuries could outperform. Within corporate bonds, security selection will continue to be critical going forward as certain industries and business models are more adapted to successfully navigating the post-pandemic environment than others. Nominal yields are near all-time lows but we believe tight spreads and valuations are supported by strong fundamentals. Default projections have improved, and companies continued to be opportunistic in issuance, extending maturities, and managing their debt profile.

We continue to look for opportunities in the mortgage sector given the potential for attractive spreads, income generation, and duration profile. The sector also benefits from the fundamental tailwind provided by the undersupply of housing. We are also focused on pre-payment speeds given greater refinancing activity driven by factors such as higher home prices, lower interest rates, and new technology.

In ABS, we are looking for opportunities within autos and credit cards as the consumer is recovering after entering the pandemic in a relatively stronger position versus history. Our focus has been on prime borrowers, who have continued to do well.

INVESTMENT PERFORMANCE (AS OF 6/30/21)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 12/01/09)	0.29%	0.12%	0.90%	2.35%	1.70%	1.44%
Class N (SI: 12/01/09)	0.25%	0.05%	0.74%	2.19%	1.54%	1.28%
ICE BofAML 1-Year U.S. Treasury Note Index	0.02%	0.09%	0.22%	2.01%	1.47%	0.90%

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.

EXPENSE RATIOS

	Gross Expense	Net Expense
Class I	0.60%	0.40%
Class N	0.84%	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 4/30/22.

IMPORTANT DISCLOSURES

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.

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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