

William Blair Bond 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 Bond Fund (Class N shares) returned 1.97%, net of fees, for the quarter ended June 30, 2021. By comparison, the Fund's benchmark, the Bloomberg Barclays U.S. Aggregate Index (the "Index"), returned 1.83%.

For the quarter the Fund outperformed the benchmark, driven by security selection, especially within investment grade corporate

Top 10 Holdings¹ as of 6/30/21

<i>Company</i>	<i>% of Fund</i>
United States Treasury Inflation Indexed Bonds; 1.38% due 02/15/44	1.7
Fannie Mae Pool; 3.88% due 04/15/29	5.0
Fannie Mae Pool; 5.50% due 12/01/41	3.1
Freddie Mac Gold Pool; 5.50% due 12/01/48	3.1
Freddie Mac Gold Pool; 5.50% due 07/01/38	2.8
Fannie Mae Pool; 6.00% due 04/01/40	2.8
Fannie Mae Pool; 6.00% due 10/01/39	2.7
Fannie Mae Pool; 6.00% due 04/01/41	2.7
Freddie Mac Gold Pool; 6.00% due 02/01/37	2.2
United States Treasury Inflation Indexed Bonds; 6.50% due 10/01/39	2.1
Total Top 10	28.2

debt. The asset allocation decision to use high yield as well as security selection in emerging markets debt was beneficial for performance as these sectors continued to perform well.

Conversely, an underweight duration position in U.S. Treasuries detracted from relative performance as yields fell in the quarter, however, the use of U.S. TIPS drove positive security selection in the sector as TIPS outperformed nominal U.S. Treasuries. An overweight position in agency MBS also detracted from relative performance in the period. The use of credit hedges in the period was a detractor from performance.

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.

¹Listed 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 06/30/21)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 05/01/07)	2.03%	-1.09%	2.16%	5.79%	3.64%	4.04%
Class N (SI: 05/01/07)	1.97%	-1.23%	1.93%	5.65%	3.46%	3.86%
Bloomberg Barclays U.S. Aggregate Index	1.83%	-1.60%	-0.33%	5.34%	3.03%	3.39%

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	0.55%	0.45%
Class N	0.79%	0.60%

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. Investing in the bond market is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk; investments may be worth more or less than the original cost when redeemed. Current conditions may result in a rise in interest rates, which in turn may result in a decline in the value of the fixed income investments held by the fund. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. The Fund's investments in below investment grade securities may have additional credit risk. In some cases, below investment grade securities may decline in credit quality or go into default. High-yield, lower-rated, securities involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not.

The Bloomberg Barclays U.S. Aggregate Index is an unmanaged index that represents the investment grade bond market. It is composed of securities from the Bloomberg Barclays Treasury, Government-Related, Corporate and Securitized Indices. 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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