William Blair

Third Quarter 2021

William Blair Low Duration Fund
Fund Manager Commentary

Market Overview

After touching lows in July, U.S. Treasury (UST) yields and yield volatility rose in the quarter. The dominant theme in the period was the reflation trade, which featured outperformance in U.S. Treasury Inflation Protected Securities (TIPS), cyclicals, energy-related, and transportation sectors, as well as sub-investment grade corporates. This outperformance occurred as COVID-related bottlenecks continue to hamper global trade longer than expected and contributed to building inflationary pressures. Against this backdrop U.S. TIPS outperformed all but the lowest quality segments of the U.S. fixed income market during the month, quarter, and year-to-date as inflation expectations steepened.

The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.05% in the quarter as the MBS and Treasury segments led the way, followed by Agencies and ABS, while corporates were flat. The intermediate segment (7-10Y) of the UST yield curve underperformed as the shape of the yield curve flattened between intermediate and long maturity Treasuries. Duration weighed on investment grade debt driving negative performance, while lower-quality rating segments have continued to outperform during the month and year-to-date.

Macro factors in the U.S. continued to be fundamentally supportive for the markets. Overall labor conditions in the U.S., while facing some supply side challenges, have improved and should be supportive for adjustments by the Fed by year end. Economic growth indicators continue to be favorable, however, the data surprise index has fallen to negative territory - indicating the potential for a negative growth impulse in the near-term. ISM Manufacturing PMI readings remained in expansionary territory and accelerated into the end of the quarter (61.1), while ISM Services PMI peaked in July at 64.1 and ended the quarter at 61.9. Manufacturing sentiment has been hampered by supply-chain disruptions and higher energy costs, while services continued to work through the headwinds of tight labor supply and COVID restrictions.

The FOMC (Federal Open Market Committee) communications have indicated that it is likely that sufficient progress will have been made to begin to reduce asset purchases by the end of the year. It is expected that the Committee will schedule monthly reductions of Treasury purchases by $10bn and MBS purchases by $5bn.

Fund Performance

The William Blair Low Duration Fund (Class N shares) returned -0.33%, net of fees, for the quarter ended September 30, 2021. By comparison, the Fund's benchmark, the ICE BofAML 1-Year U.S. Treasury Note Index, returned 0.02%.

Top 10 Holdings[1] as of 9/30/2021

Company	*% of Fund*
Freddie Mac Gold Pool; 7.00% due 02/01/39	3.6
Fannie Mae Pool; 7.50% due 08/01/37	3.1
Freddie Mac Gold Pool; 6.00% due 04/01/40	3.0
Caterpillar Financial Services Corporation; 0.30% due 05/17/24	2.1
Toyota Motor Credit Corporation; 0.38% due 01/11/24	2.1
Fannie Mae Pool; 4.00% due 02/01/29	2.1
KeyBank National Association; 0.39% due 01/03/24	2.0
Bank of Montreal; 0.73% due 03/10/23	2.0
The Toronto-Dominion Bank; 0.41% due 03/04/24	2.0
The Charles Schwab Corporation; 0.57% due 05/13/26	1.9
Total Top 10	**23.9**

The Fund's income generation within the IG Corporates, as well as the asset-backed and mortgage-backed securities sectors contributed to performance. Continued spread tightening in corporates led to price gains on investments in the sector during the quarter.

Price and paydown impacts within the agency mortgage-backed securities was the primary detractor in the quarter for the Fund. Pre-payment speeds have remained elevated due to greater refinancing activity driven by higher home prices, lower interest rates, and new technology (such as mortgage originators like Loan Depot & Rocket Mortgage).

Outlook

Our base case is that the U.S. Federal Reserve's ("Fed") FOMC will announce the reduction of asset purchases by year-end. We believe that the FOMC will be patient in tightening monetary conditions and could be more accepting of above-trend and/or transitory inflation to hit their longer-term average inflation target. However, recent Committee communications have

[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.

highlighted a dispersion of views from the members, which adds further uncertainty to the potential timeline.

In our opinion spread sectors remain relatively attractive to Treasuries over the intermediate-to-long term as corporate fundamentals remain sound and U.S. Treasury supply shows no signs of abatement. Fundamentally, we believe the accommodative monetary and fiscal environment should favor U.S. TIPS versus fixed-rate Treasuries as they could help to mitigate the negative impact of rising rates and accelerating inflationary pressures.

Within corporate bonds, security selection will continue to be critical as we recover from the pandemic. In a rising rate environment we favor bonds of fundamentally-sound companies with shorter-maturity profiles and above-average spreads. We expect that companies will continue to be opportunistic with debt issuance, extending maturities, and managing their debt profile.

Within the mortgage sector we continue to seek opportunities in the mortgage sector that exhibit the potential for attractive spreads, income generation, and desired duration profile. We are focused on pre-payment speeds given greater refinancing activity driven by factors such as higher home prices, lower interest rates, and new technology. We view CMBS that fund multi-family residential properties as well positioned to benefit from the fundamental demand for housing in a supply-constrained environment.

Within ABS (asset-backed securities) the fundamental picture remains sound as household balance sheets entered the pandemic in a relatively stronger position versus history and have benefited from fiscal stimulus. An additional sign of strength for the consumer are falling credit card delinquencies which touched lows in August. Used car values rose also in September, following two months of slight declines as values remain near all-time highs and are supportive for Auto ABS.

INVESTMENT PERFORMANCE (AS OF 9/30/21)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 12/01/09)	-0.17%	-0.05%	0.04%	2.10%	1.63%	1.38%
Class N (SI: 12/01/09)	-0.33%	-0.28%	-0.11%	1.90%	1.44%	1.20%
ICE BofAML 1-Year U.S. Treasury Note Index	0.02%	0.11%	0.17%	1.88%	1.46%	0.89%

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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