December 2017

Low Duration Fund Quarterly Review

William Blair

William Blair Low Duration Fund Important Disclosures

Please refer to the last page of this Review for definitions of the Indices used in this report.

Risks:
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. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested.

The views expressed in this report and the information about the holdings are as of the date of this material, unless otherwise noted, and are subject to change. 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.

Performance cited represents past performance. Past Performance does not guarantee future results and current performance may be lower or higher than the data quoted. Investment returns and principal will fluctuate with market and economic conditions and you may have a gain or loss when you sell shares. Current performance may be lower or higher than the data quoted. 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.

This content is for informational and educational purposes only and is 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.

Most recent month-end performance information for the Fund is available by visiting the William Blair Funds Web site at www.williamblairfunds.com, or by calling the William Blair Funds at 1-800-742-7272.

Investing includes the risk of loss. Please carefully consider the Fund's investment objective, risks, charges, and expenses before investing. This and other information is contained in the Fund's prospectus, which you may obtain by calling 1-800-742-7272. Read it carefully before you invest or send money.

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Market Commentary & Performance

December 2017

The Bloomberg Barclays U.S. Aggregate Index advanced 0.39% during the fourth quarter of 2017, as rising short- and intermediate-term rates were offset by declining long-term rates, narrowing risk spreads, and earning coupon income. All major sectors of the Index experienced positive total returns during the fourth quarter.

The Federal Open Market Committee (FOMC) met twice during the fourth quarter, and the Committee increased the target range of the federal funds rate by 0.25% to 1.25% - 1.50%. This marked the third hike of the fed funds rate during 2017. At the end of the year, the fed funds futures market carried an implied probability that the FOMC will raise the target range of the federal funds rate twice during 2018.

The FOMC began to execute its plan to gradually shrink its balance sheet during the fourth quarter. The schedule permitted the FOMC to allow the balance sheet to reduce by $10 billion per month from October 2017 – December 2017: 60% of that amount is the maximum for Treasury securities and 40% of that amount is the maximum for agency securities (agency debt plus agency MBS). This monthly cap rises to $20 billion per month during January 2018 – March 2018, $30 billion per month during April 2018 – June 2018, $40 billion per month during July 2018 – September 2018, and $50 billion per month after September 2018, with the cap for Treasury securities and agency securities at 60% and 40%, respectively, of the total cap amount for each time period.

Despite the FOMC's plans to reduce the balance sheet, curb its purchases of longer-term instruments, and continue hiking the federal funds rate, interest rate volatility has been low and subdued. One important reason volatility has remained low is that the FOMC communicated its plans well with adequate advance notice, and its plans do not involve selling securities into the market.

Agency mortgage-backed securities generated positive total returns and experienced narrowing risk spreads during the fourth quarter. Among the best-performing segments of the market were lower-coupon 30-year pools that the FOMC has targeted in "FedTrade" to suppress mortgage rates, such as 30-year 3.0%, 3.5%, and 4.0%, as the market took comfort in the fact that the FOMC's plans for balance sheet reduction continue to involve purchases of agency MBS, at least for the time being, and no selling of securities.

Corporate bonds have generated strong returns during the quarter, both total returns and duration-adjusted returns. Corporate bonds of all credit qualities, tenors, and sectors produced gains. Risk spreads narrowed and approached levels that have not been experienced since prior to the Global Financial Crisis of 2008. The new issue market is robust and open for companies to access capital in the bond markets.

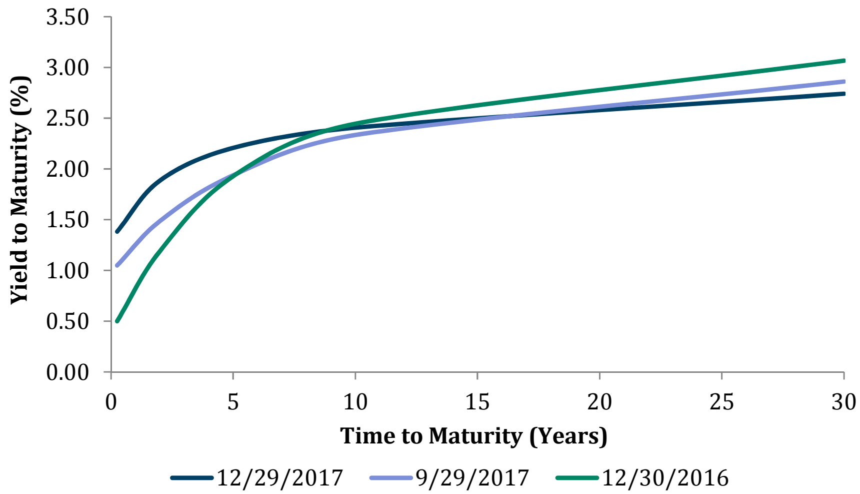
The William Blair Low Duration Fund (Class N) outperformed the Bank of America/Merrill Lynch 1-Year Treasury Note Index during the fourth quarter.

A couple of factors contributed to the Fund's performance relative to the Index during the quarter. The Fund experienced favorable results from its positions in floating-rate corporate and asset-backed securities. In addition, the Fund's positioning in higher-coupon segments of agency mortgage-backed securities contributed to performance after controlling for the effects of duration. The Fund's interest rate positioning detracted from performance, as the Fund maintained some exposure to securities with durations longer than 1.0 year and short-term interest rates rose during the quarter.

Treasury Market Overview

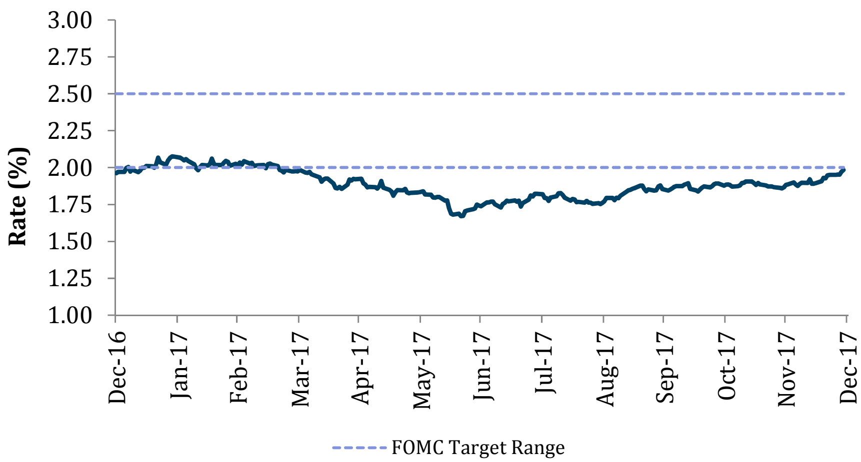
December 31, 2017

U.S. Treasury Yield Curve



	Total Returns		YTD Change in Yield		
	QTD	YTD	12/29/17	12/30/16	Difference
3 Month	0.28%	0.85%	1.38	0.50	0.88
2 Year	-0.33%	0.25%	1.89	1.19	0.70
5 Year	-0.71%	0.67%	2.21	1.93	0.28
10 Year	-0.25%	2.14%	2.41	2.45	-0.04
30 Year	3.00%	9.14%	2.74	3.07	-0.33

10-Year Breakeven Inflation Rate



- U.S. Treasuries of all tenors have experienced gains YTD.
- The yield curve has flattened YTD; short-term rates rose in coordination with actual and perceived rate hikes by the Fed, while long-term rates declined slightly.
- TIPS performed in-line with nominal Treasuries YTD after adjusting for maturity. The 10-year TIPS breakeven rate was nearly unchanged YTD.
- The current breakeven rates on U.S. TIPS are at levels near or below the FOMC's stated target range for inflation of 2.0% - 2.5% per year.

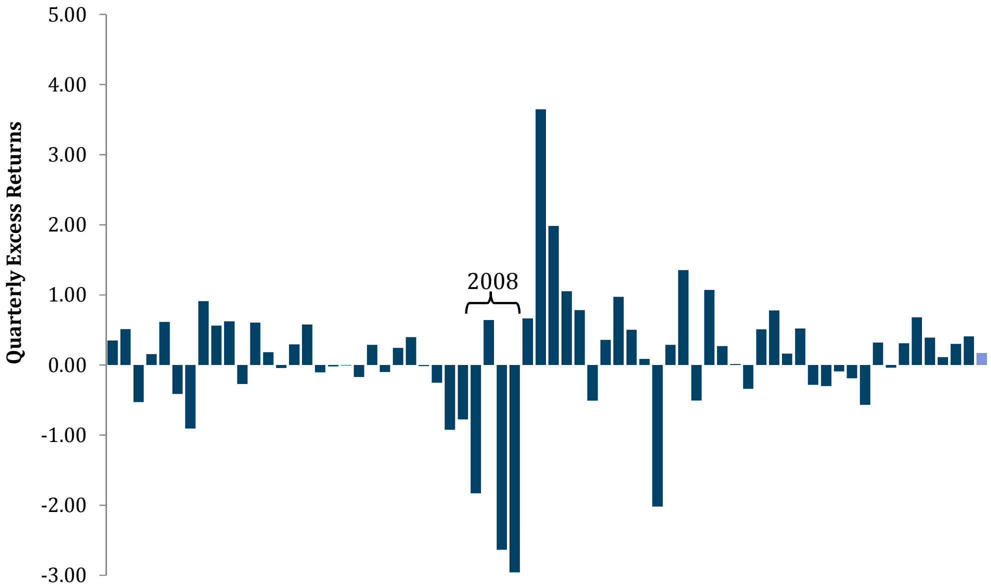
Source: Bloomberg, Barclays, Bank of America/Merrill Lynch

Past performance is not indicative of future returns. The performance shown is for illustrative purposes and is not intended to represent the performance of any account or investment strategy managed by William Blair. A direct investment in an unmanaged index is not possible.

Fixed Income Spread Sectors Overview

December 31, 2017

Bloomberg Barclays Capital Aggregate Index – Since 2001



- Mortgage-backed securities generated positive excess returns YTD.
- The credit markets generated positive excess returns YTD: investment-grade corporate bonds, high yield corporate bonds, and emerging market-related bonds all outperformed comparable-duration Treasuries.
- Excess returns measure relative performance versus a duration-neutral basket of U.S. Treasuries.

Annual Excess Returns – Through 12/31/17

	Bloomberg Barclays Aggregate Index	U.S. Mortgage Backed Securities	U.S. Corporate Investment Grade	U.S. Corporate High Yield	EM USD Aggregate
2001	0.54	-0.75	2.72	-2.85	-5.41
2002	0.29	1.73	-2.45	-13.29	0.23
2003	1.55	0.11	5.80	26.42	24.65
2004	1.03	1.42	1.63	8.00	8.23
2005	-0.31	-0.37	-1.15	0.47	9.59
2006	0.85	1.22	1.26	8.43	7.02
2007	-2.06	-1.77	-5.23	-7.77	-4.57
2008	-7.10	-2.32	-19.88	-38.32	-28.42
2009	7.46	4.95	22.76	59.55	37.97
2010	1.71	2.25	2.29	9.74	5.08
2011	-1.14	-1.06	-3.67	-2.40	-5.37
2012	2.26	0.91	7.34	13.94	15.03
2013	0.93	0.98	2.86	9.23	-0.32
2014	0.10	0.40	-0.48	-1.12	-1.20
2015	-0.53	-0.05	-1.61	-5.77	0.03
2016	1.38	-0.11	4.93	15.73	8.80
2017	1.21	0.52	3.46	6.10	6.14

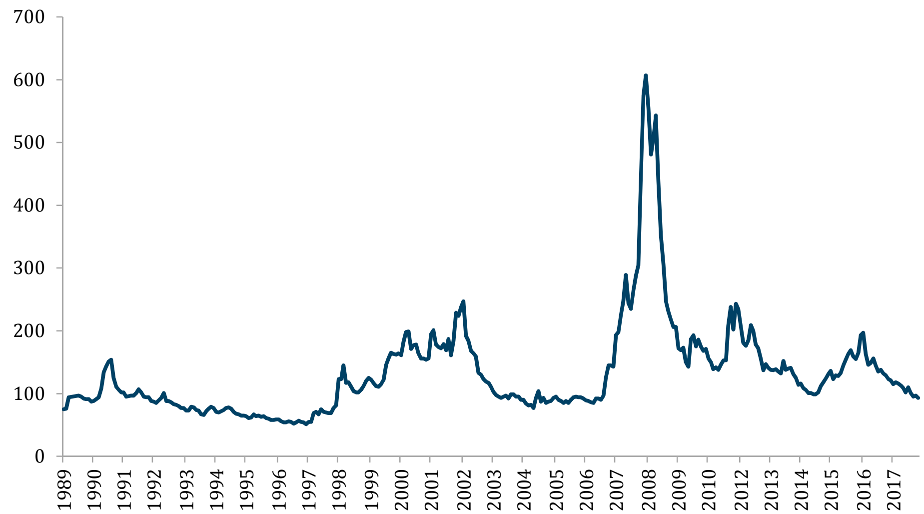
Source: Bloomberg Barclays.

Past performance is not indicative of future returns. Excess Return is a security's return minus the return from a Treasury security of the same duration. The performance shown is for illustrative purposes and is not intended to represent the performance of any account or investment strategy managed by William Blair. A direct investment in an unmanaged index is not possible.

Credit Market Overview

December 31, 2017

U.S. Corporate Investment Grade – Treasury OAS



- Corporate bonds of all sectors and qualities generated positive excess returns QTD and YTD.
- Longer-term corporate bonds outperformed shorter-term bonds YTD after controlling for the effects of duration.
- High yield bonds outperformed investment-grade bonds YTD.
- Financials and industrials outperformed utilities and non-corporate credit YTD.
- Excess returns measure relative performance versus a duration-neutral basket of U.S. Treasuries

	Total Returns		Excess Returns	
	QTD	YTD	QTD	YTD
Bloomberg Barclays Credit Index	1.05	6.18	0.89	3.35
1-5 Year Credit	-0.13	2.32	0.23	1.62
5-10 Year Credit	0.44	5.57	0.88	3.40
10+ Year Credit	3.18	12.21	1.79	5.78
AA+	0.47	3.88	0.44	1.66
A	1.14	5.98	0.94	2.96
BBB	1.23	7.45	1.06	4.47
High Yield	0.47	7.50	0.72	6.10
BB	0.39	7.32	0.63	5.75
B	0.36	6.49	0.61	5.14
CCC	1.02	10.38	1.29	9.28
Industrial	1.30	6.71	1.02	3.49
AA Industrial	0.94	5.28	0.71	2.32
A Industrial	1.35	6.23	1.02	2.86
BBB Industrial	1.30	7.17	1.08	4.07
Financial	0.77	5.60	0.86	3.43
AA Financial	-0.02	2.95	0.18	1.54
A Financial	0.72	5.19	0.79	2.99
BBB Financial	1.01	6.83	1.11	4.51
Utillity	1.88	7.59	1.23	3.41
Non-Corporate	0.42	5.00	0.43	2.78
EM USD Corporate	0.86	7.99	1.16	6.53
EM USD Corporate: IG	0.63	7.28	0.68	5.01
EM USD Corporate: HY	0.61	9.54	0.89	7.88

Source: Bloomberg Barclays.

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MBS Market Overview

December 31, 2017

U.S. Mortgage Backed Securities – Treasury OAS

	Total Returns		Excess Returns	
	QTD	YTD	QTD	YTD
MBS Fixed Rate Index	0.15	2.48	0.24	0.52
Conventional 30 Year	0.28	2.96	0.35	0.86
3.0 Coupon	0.41	3.65	0.45	1.15
3.5 Coupon	0.35	3.21	0.41	1.03
4.0 Coupon	0.14	2.53	0.22	0.62
4.5 Coupon	0.02	1.89	0.13	0.30
5.0 Coupon	-0.01	1.95	0.15	0.58
5.5 Coupon	0.16	1.63	0.37	0.25
6.0 Coupon	0.35	0.90	0.54	-0.43
6.5 Coupon	0.50	1.20	0.70	-0.09
Conventional 15 Year	-0.20	1.70	0.07	0.37
2.5 Coupon	-0.19	1.83	0.10	0.41
3.0 Coupon	-0.25	1.56	0.02	0.22
3.5 Coupon	-0.31	1.34	-0.06	0.18
4.0 Coupon	0.01	1.37	0.22	0.45
4.5 Coupon	-0.05	0.95	0.14	0.24

- Mortgage-backed securities (MBS) earned positive excess returns QTD and YTD.
- 30-year pools outperformed 15-year pools QTD and YTD.
- In 30-year MBS segments, lower-coupon segments outperformed higher-coupon segments of the MBS market QTD and YTD. These lower-coupon segments, particularly 30-year 3.0% and 3.5%, have been targeted by the Federal Reserve when purchasing mortgage-backed securities as part of their large-scale asset purchase programs.
- Excess returns measure relative performance versus a duration-neutral basket of U.S. Treasuries.

Source: Bloomberg Barclays.

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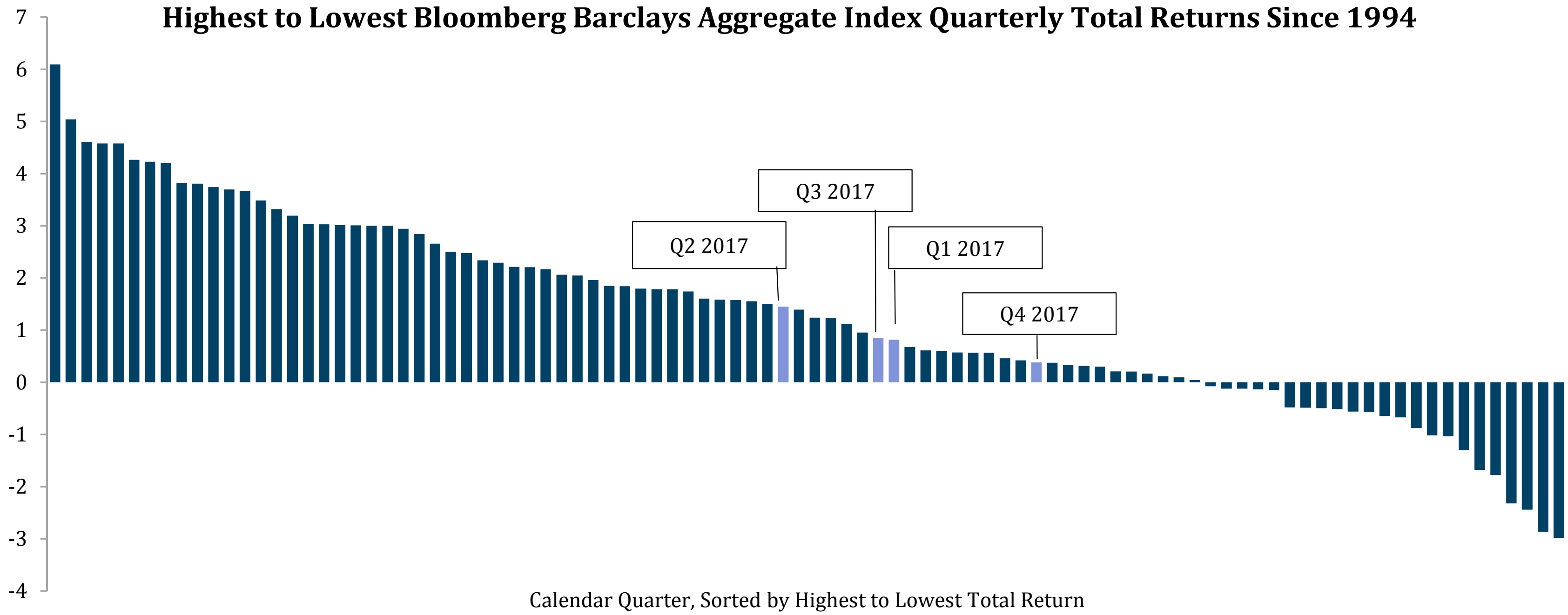
Fixed Income Market Returns

December 31, 2017



	Total Returns	
	QTD	YTD
Bloomberg Barclays Aggregate Index	0.39	3.54
Bloomberg Barclays Treasury Index	0.05	2.31
Bloomberg Barclays U.S. TIPS Index	1.26	3.01
Bloomberg Barclays U.S. MBS Index	0.15	2.47
Bloomberg Barclays Corporate Index	1.17	6.42
Bloomberg Barclays U.S. High Yield Index	0.47	7.50
Bloomberg Barclays EM USD Aggregate Index	0.62	8.17

Source: Bloomberg Barclays.

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Low Duration Fund Performance

December 31, 2017

Performance %	Quarter	1 Year	3 Years	5 Years	Since Inception (12/1/09)	Gross Expense %	Net Expense %
Low Duration Fund - Class I	0.16	0.91	0.87	0.67	1.18	0.59	0.50
Low Duration Fund - Class N	0.24	0.84	0.67	0.52	1.03	0.83	0.65
B of A ML 1-yr. U.S. Tsy Note	0.01	0.57	0.49	0.38	0.42		
Morningstar Ultrashort Bond Category	0.28	1.44	1.02	0.80			

Performance cited represents past performance. Past Performance does not guarantee future results and current performance may be lower or higher than the data quoted. Results shown are average annual returns, which 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 1-877-962-5247, 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.

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 4/30/18.

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. A direct investment in an index is not possible.

The Morningstar Ultrashort Bond Category represents the average annual composite performance of all mutual funds listed in the Ultrashort Bond Category by Morningstar.

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Low Duration Fund Performance Analysis

December 31, 2017

QTD Contributors

- Selection of floating-rate corporate and asset-backed securities was a source of value.
- The portfolio’s allocation to high-coupon agency MBS contributed to results after controlling for duration.

QTD Detractors

- The portfolio’s interest rate positioning impacted performance as short-term rates rose QTD.

YTD Contributors

- Floating-rate corporate and asset-backed securities were additive to performance.
- The portfolio’s interest rate positioning impacted performance favorably as short-term bonds generated gains.

YTD Detractors

- The portfolio’s positioning in agency mortgage-backed securities (MBS) detracted as higher-coupon MBS underperformed comparable duration Treasuries.

Source: William Blair, BlackRock Solutions.

Past performance is not indicative of future returns. Holdings are subject to change at any time. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. William Blair may or may not own the securities referenced and, if such securities are owned, no representation is being made that such securities will continue to be held. The above securities do not represent all of the securities purchased, sold or recommended for all William Blair clients.

Low Duration Fund Attribution

Through December 31, 2017

Quarter to Date

Description	Market Value Weight			Total Return			Total Return Contribution			Active Contribution		
	Port	Bench	Active	Port	Bench	Active	Port	Bench	Active	Rates	Sector Allocation	Security Selection
Total Fund	**100.0%**	**100.0%**	**0.0%**	**26**	**28**	**-2**	**26**	**28**	**-2**	**-12**	**11**	**0**
Treasuries	0.1%	100.0%	-99.9%	31	28	3	0	28	-28	-23	0	0
Residential Mortgages	36.5%	0.0%	36.5%	2	0	2	1	0	1	-5	4	0
ABS	20.1%	0.0%	20.1%	42	0	42	8	0	8	5	2	0
IG Corps	36.4%	0.0%	36.4%	47	0	47	17	0	17	9	7	0
Cash Securities	6.9%	0.0%	6.9%	0	0	0	0	0	0	2	-2	0

Year to Date

Description	Market Value Weight			Total Return			Total Return Contribution			Active Contribution		
	Port	Bench	Active	Port	Bench	Active	Port	Bench	Active	Rates	Sector Allocation	Security Selection
Total Fund	**100.0%**	**100.0%**	**0.0%**	**133**	**86**	**47**	**133**	**86**	**47**	**21**	**26**	**0**
Treasuries	0.1%	100.0%	-99.9%	80	86	-6	0	86	-86	-79	0	0
Residential Mortgages	36.9%	0.0%	36.9%	90	0	90	32	0	32	48	-18	0
ABS	20.7%	0.0%	20.7%	156	0	156	32	0	33	17	14	0
IG Corps	34.7%	0.0%	34.7%	196	0	196	68	0	68	29	37	0
Emerging Markets	0.1%	0.0%	0.1%	35	0	35	0	0	0	0	0	0
Cash Securities	7.5%	0.0%	7.5%	0	0	0	0	0	0	6	-7	0

Source: BlackRock Solutions.

Past performance is not indicative of future returns. The above information is based on the Low Duration Fund. The attribution analysis contained herein is calculated by BlackRock Solutions and is intended to provide an estimate as to which elements of a strategy contributed (positively or negatively) to the Fund's performance. Attribution analysis is not a precise measure and should not be relied upon for investment decisions. Holdings are subject to change at any time. Not intended as investment advice. A direct investment in an index is not possible.

Low Duration Fund Strategy

December 31, 2017

Decision Factor	Positioning	Strategy
Interest Rates & Yield Curve	Defensive	• The FOMC has begun its campaign of raising the federal funds rate, and the fed funds futures market predicts that the FOMC will raise rates twice during 2018. • Portfolios are allocated to floating-rate corporate and asset-backed securities, subject to client guidelines, in an effort to capture increasingly-competitive yields while mitigating the impact of an unexpected rise in interest rates
Treasuries & Agencies	Underweight	• No allocation to fixed-rate Treasuries. We believe valuations in the spread sectors, in particular agency MBS, ABS, and corporates, are appealing • No allocation to agencies. We currently find agency MBS valuations more attractive
Securitized Sectors	Overweight	• Allocation to agency MBS. We believe valuations of higher-coupon pools comprised of low loan balances are attractive as such pools offer superior spreads within the MBS sector, defensive duration posture, and manageable prepayment experiences • We avoid the lower-coupon MBS that dominate the MBS Index because we find that valuations are unappealing due to the Fed's targeting of the securities during their large-scale asset purchase programs, most recently "FedTrade." • Allocation to ABS. For accounts that allow, we find fixed- and floating-rate ABS that can offer attractive yields and protection against rising interest rates
Credit Sectors	Overweight	• Allocation to investment-grade industrials and financials. We seek to emphasize companies with positive free cash flows and strong and experienced management teams

Low Duration Fund Historical Characteristics

	Low Duration Fund								
			European Debt Crisis		Taper Tantrum				
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Effective Duration	1.35	1.49	1.35	1.31	1.19	1.09	1.69	1.32	1.58
Convexity	-0.04	-0.12	-0.42	-0.29	-0.54	-0.20	-0.10	-0.03	-0.03
% Floating-Rate	12.1%	13.6%	6.3%	7.0%	13.7%	35.0%	43.8%	48.4%	41.1%
U.S. Treasury	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.0%	0.0%	0.0%
Agency	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MBS	49.4%	49.2%	77.4%	78.7%	75.4%	58.7%	53.2%	49.4%	58.3%
CMBS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ABS	28.0%	31.2%	9.7%	8.9%	14.7%	19.3%	18.0%	16.6%	9.6%
Credit	20.0%	18.6%	12.7%	11.9%	8.4%	19.2%	27.1%	32.5%	31.5%
Cash	2.6%	1.0%	0.2%	0.5%	1.5%	1.6%	1.7%	1.5%	0.6%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Rating Categories*									
AAA	81.0%	81.4%	87.3%	88.1%	90.9%	80.1%	72.2%	68.2%	68.4%
AA	11.2%	11.2%	6.1%	3.8%	2.8%	11.4%	14.9%	19.1%	13.0%
A	7.8%	7.4%	6.6%	8.1%	6.3%	8.5%	12.9%	12.7%	18.6%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Sources: BlackRock Solutions, Bloomberg Barclays, CMS BondEdge. Information is for illustrative purposes only and is not intended as investment advice. Subject to change without notice.
*The credit quality of securities in the Fund is sourced through BlackRock Solutions and derived from Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's. In cases where the credit rating agencies have assigned different credit ratings to the same security, the higher rating is used. In cases where only one rating agency has assigned a credit rating to a security, that rating is used.

Capital Markets Outlook

December 31, 2017

We believe that the Federal Open Market Committee (FOMC) will continue to raise the federal funds rate at a measured pace over the next 12 months. The U.S. economy is growing; forecasters predict a real GDP growth rate of approximately 2.5%-3.0% during 2018. In addition, the U.S. labor market is adding jobs and the unemployment rate is at 4.1%. However, recent indicators of inflation have revealed slower-than-desired inflation. Estimates of wage inflation are between 3.0%-3.5% while estimates of core personal consumption expenditures (PCE) have been 1.5%-2.0%. Macroeconomic theory predicts that a robust labor market creates wage inflation, which in turns spurs broader inflation. We believe that the FOMC will raise rates so long as inflationary pressures do not deteriorate.

We believe that the FOMC's plans to reduce the size of the Fed's balance sheet will 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. In addition, remarks by FOMC members indicate that the FOMC will err on the side of conservatism, with the permissible reduction being relatively small in scale and subject to a monthly cap. 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 at levels near the lower bound of 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 slightly below their longer-term averages, but we believe opportunities remain. 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 continues to tighten the fed funds rate.

We believe that higher-coupon segments (coupon rates of 5.0% and above for 30-year) 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 opportunities remain in the corporate bond market despite risk spreads being slightly below their longer-term averages. 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.

Index Definitions

BofA Merrill Lynch 1-Year U.S. Treasury Note Index: 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.

Bloomberg Barclays Aggregate Bond Index: Composed of securities from the Barclays Aggregate Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index. Barclays Corporate High Yield Bond Index: Composed of fixed-rate, publicly issued, non-investment grade debt.

Bloomberg Barclays Corporate High Yield Bond Index: Composed of fixed-rate, publicly issued, non-investment grade debt.

Bloomberg Barclays Emerging Market Bond Index: An unmanaged index that tracks total returns for external-currency-dominated debt instruments for emerging markets.

Bloomberg Barclays Intermediate Govt./Credit Bond Index: Fixed-rate government and corporate bonds rated investment grade or higher.

Bloomberg Barclays U.S. MBS Index: Measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.

Bloomberg Barclays U.S. TIPS Index: Includes all publicly issued U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

MSCI EAFE IMI Index: a free float-adjusted market capitalization index that is designed to measure equity market performance in the developed markets outside the United States.

MSCI Emerging Markets IMI Index: a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

S&P 500 Index: A measure of domestic equity market performance published by Standard & Poor's. It consists of 400 leading industrial issues, 20 transportation issues, 40 utilities and 40 finance issues weighted on a market capitalization basis. The S&P 500 is a broad-based index composed of domestic stocks representing 80% of the market value of all stocks traded on the New York Stock Exchange.

Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly.