

September 2018

Bond Fund Quarterly Review

William Blair

William Blair Bond Fund Important Disclosures

Please refer to the last page of this Quarterly 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. 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 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

September 2018

The Bloomberg Barclays U.S. Aggregate Index returned 0.02% during the third quarter of 2018, as the combination of the market's yield levels and declining risk spreads were positive effects that offset the impact of rising interest rates. The Index returned -1.60% year-to-date ending 9/30/18 as interest rates rose across all tenors.

The Federal Open Market Committee (FOMC) increased the target range of the federal funds rate by 0.25% during the third quarter, as the Committee increased the range to 2.00% - 2.25% during its September meeting. This marked the third hike of the fed funds rate during 2018, and the fed funds futures market carried an implied probability that the FOMC will raise the target range of the federal funds rate by 25 basis points one additional time during 2018: following its December meeting.

The FOMC continued to execute its plan to gradually shrink its balance sheet during the third quarter, and effective October 1, 2018 the FOMC will permit the balance sheet to shrink at its fastest pace: \$50 billion per month. At this pace, the FOMC expects to slow the pace of reinvestments of agency mortgage-backed securities (MBS) to a *de minimis* level.

The agency MBS Index generated negative total returns but outperformed Treasuries on a duration-adjusted basis during the third quarter. The MBS Index also generated negative total returns year-to-date while also underperforming comparable-duration Treasuries. Over both time periods, the weak performance has been dominated by lower-coupon 30-year pools that the FOMC has targeted in its asset purchase programs to suppress mortgage rates, such as 30-year 3.0%, 3.5%, and 4.0%. Higher-coupon segments of the market have generated positive total returns, outpaced comparable duration Treasuries, and outperformed those lower-coupon segments during the third quarter and year-to-date.

Corporate bonds experienced gains and outperformed other segments of the market during the third quarter. High yield corporate bonds continued to outperform investment-grade corporate bonds, and the most-speculative segments of the market continued to generate strong results, with CCC-rated bonds having posted a return of 5.99% year-to-date.

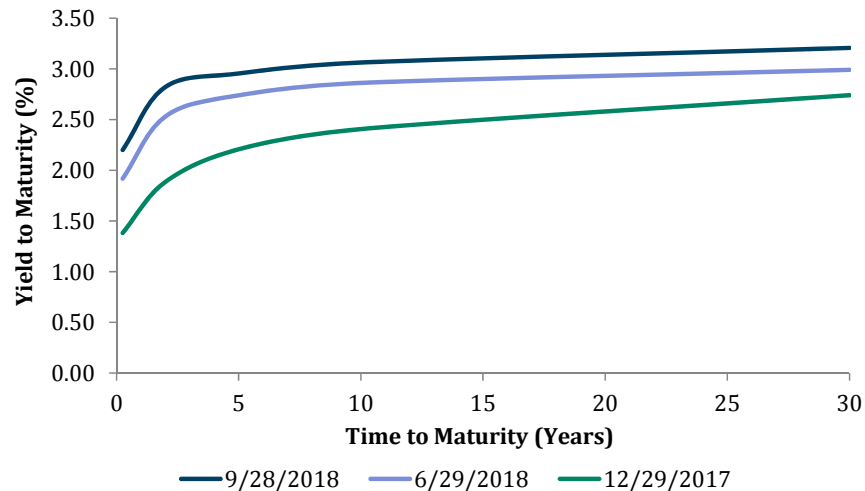
This information has been prepared solely for informational purposes and is not intended to provide or should not be relied upon for accounting, legal, tax or investment advice. The factual statements herein have been taken from sources we believe to be reliable, but such statements are made without any representation as to accuracy or completeness. Opinions expressed are current opinions as of the date appearing in this material only. These materials are subject to change, completion, or amendment from time to time without notice and William Blair is not under any obligation to keep you advised of such changes.

The William Blair Bond Fund (Class N) outperformed the Bloomberg Barclays U.S. Aggregate Index during the third quarter. A couple of factors contributed to the Fund's performance relative to the Index during the quarter. Sector allocation contributed to results, as the Fund was underweight to fixed-rate Treasuries and overweight to corporate bonds. Security selection of corporate bonds contributed to performance, including positions in longer-maturity bonds issued by Verizon, Mexichem, ConocoPhillips, and Brookfield Asset Management. Security selection of agency mortgage-backed securities impacted results favorably, as the Fund emphasized higher-coupon segments that outperformed lower-coupon alternatives. There were some factors that detracted from performance during the quarter. Positions in bonds issued by Triumph Group and Jaguar LandRover hindered results.

Treasury Market Overview

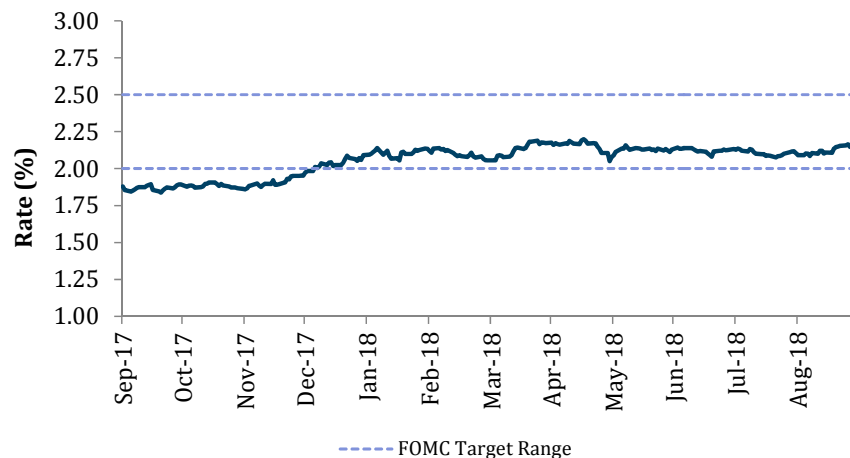
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U.S. Treasury Yield Curve



	Total Returns		YTD Change in Yield		
	QTD	YTD	9/28/18	12/29/17	Difference
3 Month	0.49%	1.30%	2.20	1.38	0.82
2 Year	0.14%	0.12%	2.82	1.89	0.94
5 Year	-0.28%	-1.35%	2.95	2.21	0.75
10 Year	-1.09%	-3.73%	3.06	2.41	0.66
30 Year	-3.27%	-6.55%	3.21	2.74	0.47

10-Year Breakeven Inflation Rate



- U.S. Treasuries of all tenors experienced rising rates YTD.
- The 5-, 10-, and 30-year Treasury indexes experienced negative total returns YTD.
- TIPS outperformed nominal Treasuries YTD after adjusting for maturity; the 10-year TIPS breakeven rate increased YTD.
- The current breakeven rates on U.S. TIPS are at levels within the FOMC's stated target range for inflation of 2.0% - 2.5% per year.

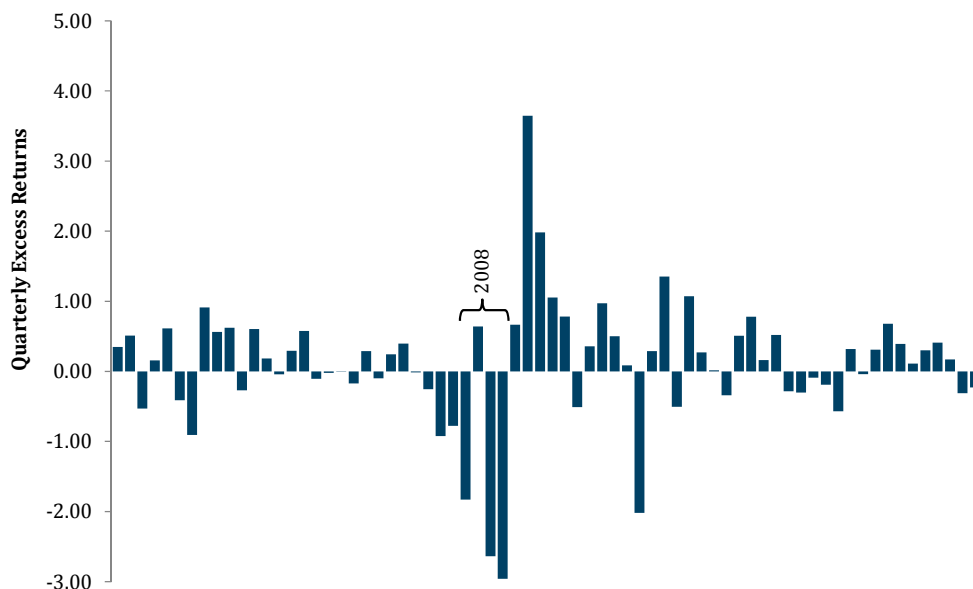
Source: Bloomberg, Barclays, Bank of America/Merrill Lynch

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

September 30, 2018

Bloomberg Barclays Capital Aggregate Index – Since 2001



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

Annual Excess Returns – Through 9/30/18

	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
2018	-0.01	-0.07	-0.11	3.27	-0.59

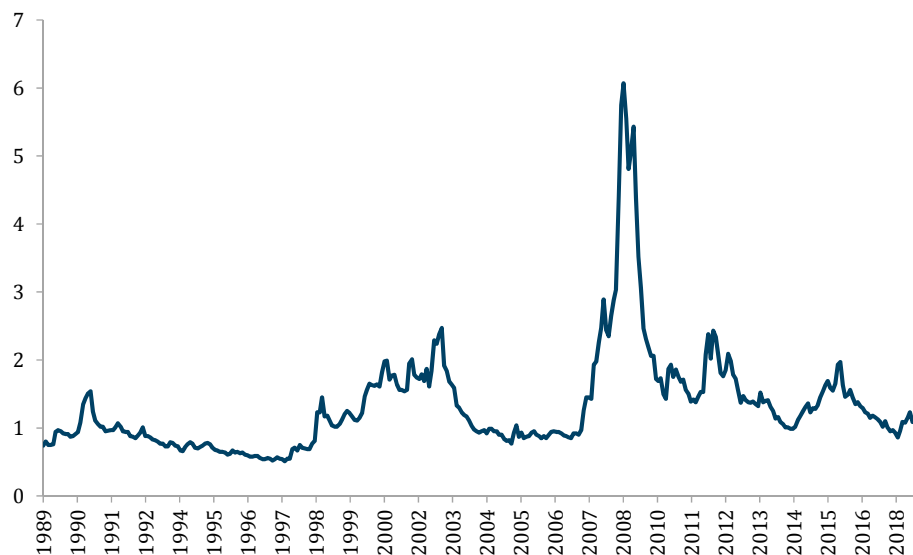
Source: Bloomberg Barclays.

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

September 30, 2018

U.S. Corporate Investment Grade – Treasury OAS



- Investment-grade corporate bonds generated positive excess returns QTD but negative excess returns YTD.
- Longer-term corporate bonds underperformed shorter-term bonds YTD after controlling for the effects of duration.
- High yield bonds outperformed investment-grade bonds QTD and YTD, with the best performance experienced by more-speculative segments of the market (“B” and “CCC” rated bonds).
- Excess returns measure relative performance versus a duration-neutral basket of U.S. Treasuries

Source: Bloomberg Barclays.

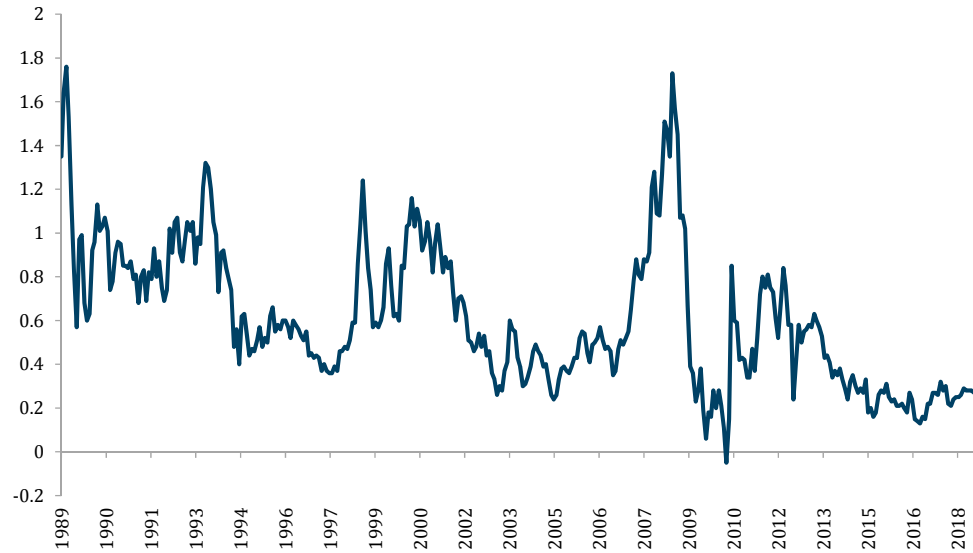
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	Total Returns		Excess Returns	
	QTD	YTD	QTD	YTD
Bloom/Barc Corporate Index	0.97	-2.33	1.69	-0.11
Bloom/Barc U.S. High Yield Index	2.40	2.57	2.48	3.27
Bloom/Barc EM USD Aggregate Index	1.61	-2.28	2.10	-0.59
1-5 Year Credit	0.71	0.19	0.62	0.34
5-10 Year Credit	0.87	-2.02	1.34	0.14
10+ Year Credit	1.32	-5.54	3.28	-0.84
AA+	0.58	-1.58	1.14	0.11
A	0.72	-2.76	1.45	-0.54
BBB	1.29	-2.05	2.00	0.22
BB	2.32	0.51	2.48	1.46
B	2.29	3.17	2.32	3.74
CCC	2.73	5.99	2.73	6.35
Industrial	1.07	-2.36	1.90	0.07
Financial	0.93	-1.94	1.35	-0.32
Utility	0.23	-3.94	1.44	-0.79
Non-Corporate	0.49	-1.08	0.94	0.48
EM USD Corporate: IG	1.22	-1.61	1.92	0.42
EM USD Corporate: HY	1.73	-4.22	2.10	-2.72

MBS Market Overview

September 30, 2018

U.S. Mortgage Backed Securities – Treasury OAS



- The mortgage-backed securities (MBS) Index earned negative excess returns YTD.
- 30-year pools outperformed 15-year pools QTD and YTD after controlling for duration.
- Higher-coupon, 30-year pools outperformed lower-coupon, 30-year pools QTD and YTD.
- Excess returns measure relative performance versus a duration-neutral basket of U.S. Treasuries.

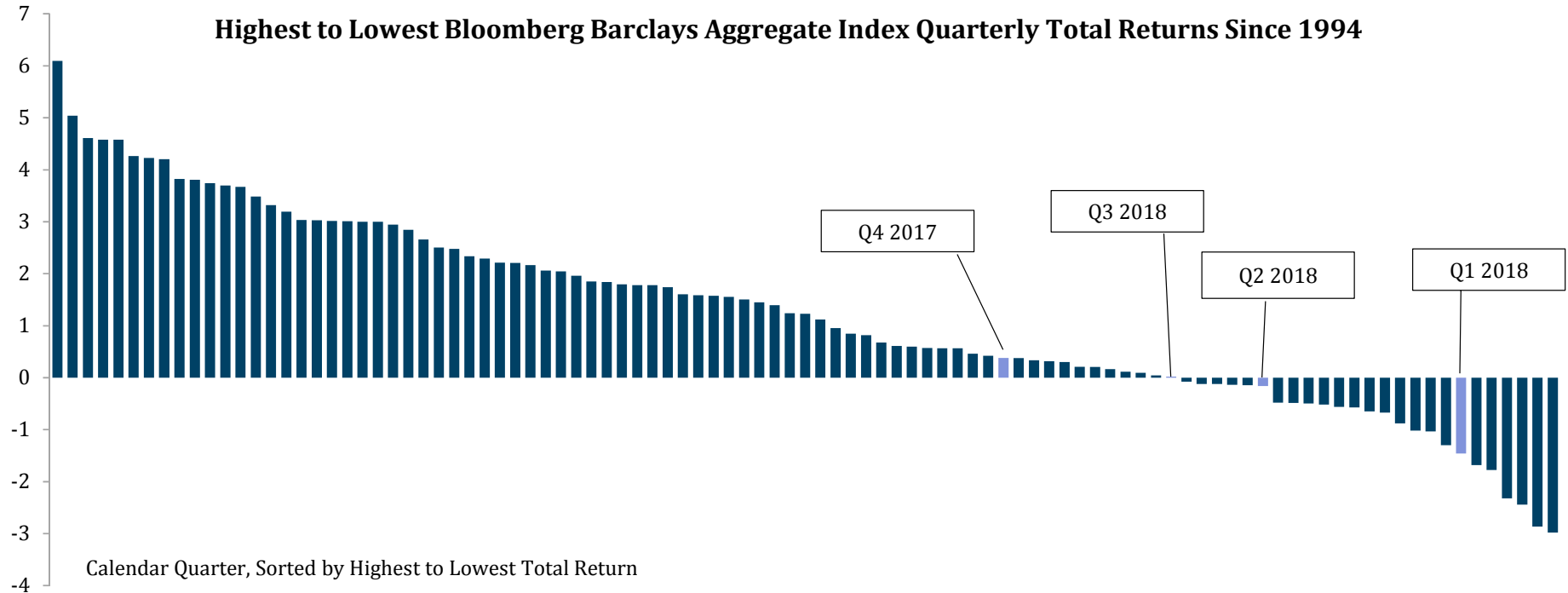
	Total Returns		Excess Returns	
	QTD	YTD	QTD	YTD
MBS Fixed Rate Index	-0.12	-1.07	0.17	-0.07
Conventional 30 Year	-0.17	-1.19	0.17	-0.07
3.0 Coupon	-0.37	-1.74	0.12	-0.12
3.5 Coupon	-0.25	-1.49	0.13	-0.34
4.0 Coupon	-0.05	-0.77	0.20	0.03
4.5 Coupon	-0.06	-0.40	0.11	0.20
5.0 Coupon	0.30	0.15	0.39	0.72
5.5 Coupon	0.83	0.30	0.91	1.04
6.0 Coupon	0.25	0.03	0.35	0.72
6.5 Coupon	0.27	0.23	0.32	0.82
Conventional 15 Year	-0.04	-0.81	0.01	-0.19
2.5 Coupon	-0.07	-1.02	0.00	-0.29
3.0 Coupon	-0.12	-0.79	-0.06	-0.16
3.5 Coupon	0.08	-0.38	0.09	0.02
4.0 Coupon	0.23	0.42	0.10	0.32
4.5 Coupon	0.35	0.36	0.13	0.10

Source: Bloomberg Barclays.

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Fixed Income Market Returns

September 30, 2018



	Total Returns	
	QTD	YTD
Bloomberg Barclays Aggregate Index	0.02	-1.60
Bloomberg Barclays Treasury Index	-0.59	-1.67
Bloomberg Barclays U.S. TIPS Index	-0.82	-0.84
Bloomberg Barclays U.S. MBS Index	-0.12	-1.07
Bloomberg Barclays Corporate Index	0.97	-2.33
Bloomberg Barclays U.S. High Yield Index	2.40	2.57
Bloomberg Barclays EM USD Aggregate Index	1.61	-2.28

Source: Bloomberg Barclays.

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William Blair Bond Fund Performance

September 30, 2018

Performance %						
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Bond Fund (WBFIX) Class I	0.66	-1.57	-0.87	2.38	2.70	4.83
Bond Fund (WBBNX) Class N	0.63	-1.66	-1.00	2.15	2.49	4.65
Bloomberg Barclays U.S. Aggregate Index	0.02	-1.60	-1.22	1.31	2.16	3.77
Morningstar Intermediate-Term Bond Category	0.20	-1.37	-1.06	1.65	2.14	4.21

Inception date: 5/1/2007

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.

Bond Fund Expense Ratios:

	Gross	Net
Class I Shares	0.45%	0.45%
Class N Shares	0.67%	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 4/30/19.

The Bloomberg Barclays U.S. Aggregate Index is an unmanaged index that represents the investment bond grade market. It is composed of securities from the Bloomberg Barclays Treasury, Government-Related, Corporate and Securitized Indices. A direct investment in an index is not possible.

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

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William Blair Bond Fund Performance Analysis

September 30, 2018

QTD Contributors

- Sector allocation contributed to results, as the portfolio was underweight to fixed-rate Treasuries and overweight to corporate bonds.
- Security selection of corporate bonds contributed to performance, including positions in longer-maturity bonds issued by Verizon, Mexichem, ConocoPhillips, and Brookfield Asset Management.
- Security selection of agency mortgage-backed securities impacted results favorably, as the portfolio emphasized higher-coupon segments that outperformed lower-coupon alternatives.

QTD Detractors

- A position in bonds issued by Triumph Group and Jaguar LandRover detracted.

YTD Contributors

- Positioning within mortgage-backed securities contributed, as higher-coupon segments of the market outperformed lower-coupon segments.
- An allocation to TIPS was additive to performance, as the market's implied inflation expectations rose.
- Security selection of corporate bonds contributed to results, including positions in bonds issued by AT&T, Verizon, CVS, and Union Pacific.

YTD Detractors

- Positions in bonds issued by Abbvie, L Brands, and Tenneco detracted from results.

The commentary above is based on the William Blair Bond Fund. 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.

William Blair Bond Fund Attribution

Through September 30, 2018

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 Portfolio	100.0%	100.0%	0.0%	74	2	72	74	2	72	-2	42	31
Treasuries	5.9%	37.8%	-31.9%	-101	-59	-42	-6	-23	17	16	19	0
Agencies	0.0%	1.6%	-1.6%	0	-1	1	0	0	0	0	1	0
Agency MBS	43.1%	27.7%	15.4%	27	-10	37	11	-3	14	6	-5	3
CMBS	0.0%	1.9%	-1.9%	0	45	-45	0	1	-1	1	0	0
ABS	1.0%	0.5%	0.5%	68	50	19	1	0	0	0	0	0
DM IG Credit	35.0%	28.5%	6.5%	128	84	43	44	24	20	-23	6	33
DM HY Credit	7.3%	0.0%	7.3%	171	240	-70	12	0	12	-1	18	-5
Emerging Markets	5.1%	1.4%	3.7%	274	186	88	15	3	12	-2	9	3
Derivatives	-0.1%	0.0%	-0.1%	76	0	76	-4	0	-4	0	-4	0
Cash Securities	2.6%	0.5%	2.1%	0	0	0	0	0	0	1	-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 Portfolio	100.0%	100.0%	0.0%	-125	-160	35	-125	-160	35	3	25	7
Treasuries	5.7%	37.4%	-31.7%	-133	-166	33	-8	-62	54	39	2	12
Agencies	0.0%	1.7%	-1.7%	0	-54	54	0	-1	1	1	0	0
Agency MBS	44.6%	27.7%	16.9%	-12	-105	93	-7	-29	22	0	0	22
CMBS	0.0%	1.9%	-1.9%	0	-93	93	0	-2	2	3	-1	0
ABS	0.9%	0.5%	0.4%	144	52	91	1	0	1	1	0	0
DM IG Credit	34.1%	28.8%	5.3%	-289	-213	-76	-89	-63	-27	-33	0	6
DM HY Credit	7.3%	0.0%	7.3%	-133	257	-390	-10	0	-11	-3	26	-22
Emerging Markets	6.1%	1.5%	4.6%	-72	-175	103	-10	-3	-7	-7	1	-1
Derivatives	-0.1%	0.0%	-0.1%	47	0	47	-2	0	-2	0	-2	0
Cash Securities	1.3%	0.5%	0.9%	3	0	3	0	0	0	1	-2	0

Source: BlackRock Solutions.

Past performance is not indicative of future returns. 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.

William Blair Bond Fund Strategy

September 30, 2018

Decision Factor	Positioning	Strategy
Interest Rates & Yield Curve	Neutral	<ul style="list-style-type: none"> • Strategy risk discipline to maintain benchmark-like duration and yield curve exposures.
Treasuries & Agencies	Underweight	<ul style="list-style-type: none"> • <u>Allocation to TIPS</u>. We believe the embedded option that can benefit from unexpected inflation is an appealing feature versus owning nominal Treasury notes and bonds. • <u>Underweight agencies</u>. We view agency MBS as a more attractive alternative.
Securitized Sectors	Overweight	<ul style="list-style-type: none"> • <u>Overweight agency MBS</u>. In our view, we find valuations of higher-coupon pools comprised of low loan balances 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." • <u>Overweight ABS</u>. We believe certain floating-rate ABS offer attractive yields and protection against rising interest rates. • <u>Underweight CMBS</u>. We favor owning corporate REITs instead due to their better liquidity profile, in our view, and their actively-managed approach to commercial real estate.
Credit Sectors	Overweight	<ul style="list-style-type: none"> • <u>Overweight investment-grade industrials and financials</u>. We seek to emphasize bonds with appealing valuations that are issued by companies with positive free cash flows and strong and experienced management teams. • <u>Overweight corporations domiciled in emerging markets</u>. Within the sector, we have found value in "Global Leaders"—large, multinational companies with a market leadership position and strong management teams. • <u>Allocation to high yield in accounts that allow</u>. We believe higher-quality (BB- and B-rated) issuers offer attractive yields and potential benefits in a rising-rate environment.

Information subject to change without notice. Not intended as investment advice.

William Blair Bond Fund Characteristics

	Bond Fund												Bloomberg Barclays U.S. Aggregate Index
	Global Financial Crisis			European Debt Crisis		Taper Tantrum							
	12/31/07	12/31/08	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	9/30/18	9/30/18
Effective Duration	4.62	3.67	4.49	4.65	5.01	5.37	4.23	4.81	5.14	5.45	5.80	5.70	5.92
Convexity	-0.22	-0.28	-0.24	-0.22	-0.05	0.34	0.14	0.27	0.27	0.39	0.45	0.67	0.29
Sector Composition													
Nominal Treasuries	20.5%	8.1%	2.1%	1.7%	0.3%	1.1%	0.3%	0.5%	0.7%	0.8%	0.1%	0.1%	38.1%
TIPS	0.0%	0.0%	1.8%	7.8%	8.4%	7.5%	6.4%	6.2%	5.7%	6.2%	5.7%	5.9%	0.0%
Agency	1.7%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%
MBS	42.0%	52.0%	44.1%	37.0%	35.1%	31.7%	38.1%	39.8%	45.7%	46.2%	47.5%	41.6%	27.9%
CMBS	1.0%	1.0%	0.5%	0.9%	0.8%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%
ABS	4.5%	3.1%	2.2%	4.1%	3.5%	3.0%	3.7%	5.2%	3.4%	2.3%	1.1%	1.5%	0.5%
Credit	24.4%	32.9%	48.8%	46.8%	49.7%	55.7%	47.1%	45.9%	41.0%	42.5%	44.9%	47.0%	30.1%
Cash	5.9%	2.4%	0.5%	1.7%	2.2%	0.8%	4.4%	2.5%	3.5%	2.1%	0.7%	3.9%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Rating Categories¹													
TSY/AGY/AAA	71.3%	63.8%	50.3%	50.4%	47.7%	41.2%	49.9%	51.4%	58.1%	57.9%	56.2%	53.7%	72.6%
AA	4.8%	4.5%	5.9%	4.8%	4.5%	2.0%	2.4%	2.3%	0.6%	1.6%	1.1%	1.0%	5.2%
A	15.4%	21.6%	26.3%	20.3%	17.7%	20.3%	12.4%	11.2%	14.9%	16.0%	15.6%	14.3%	12.3%
BBB	6.8%	7.6%	12.4%	15.2%	21.5%	27.5%	26.1%	26.0%	17.0%	15.1%	19.1%	21.3%	9.8%
<BBB	1.7%	2.5%	5.1%	9.3%	8.6%	9.0%	9.2%	9.2%	9.4%	9.4%	8.1%	9.8%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Credit Composition													
DM IG Industrial	10.5%	17.0%	27.0%	22.9%	28.3%	23.4%	20.7%	15.9%	16.3%	16.4%	17.8%	21.8%	15.0%
DM IG Financial	5.9%	10.0%	12.7%	11.1%	8.7%	16.2%	11.5%	9.0%	11.1%	12.8%	13.8%	12.6%	8.2%
DM IG Utilities	3.2%	2.0%	1.7%	1.4%	2.1%	1.3%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	1.8%
Emerging Markets	3.1%	3.1%	2.9%	3.4%	2.0%	5.9%	6.5%	13.3%	6.0%	6.2%	6.9%	5.3%	1.6%
DM High Yield	1.7%	0.8%	4.5%	8.0%	8.6%	8.9%	7.9%	7.6%	7.6%	7.1%	6.4%	7.3%	0.0%
Non-Corp	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.5%
	24.4%	32.9%	48.8%	46.8%	49.7%	55.7%	47.1%	45.8%	41.0%	42.5%	44.9%	47.0%	30.1%

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 Bond 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. The credit quality of a particular security or group of securities does not ensure the stability or safety of an overall portfolio.

Capital Markets Outlook

September 30, 2018

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 3.0% during 2018. In addition, the U.S. labor market is adding jobs and the unemployment rate is at 3.7%. Estimates of wage inflation are roughly 3.5%, while estimates of core personal consumption expenditures (PCE) have been roughly 2.0%. Macroeconomic theory predicts that a robust labor market creates wage inflation, which in turn 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. 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 within 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 near their longer-term averages, and we believe opportunities remain after risk spreads increased year-to-date. 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 tightens the federal funds rate and reduces the scale of their asset purchases.

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 as risk spreads increased to levels close to Index's longer-term average. 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.

Information subject to change without notice. Not intended as investment advice.

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.

Bloomberg Barclays U.S. Corporate Index: measures the investment grade, fixed-rate, taxable corporate bond market.

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

Bloomberg Barclays U.S. Credit Index: measures the investment grade, U.S dollar-denominated, fixed rate, taxable corporate and government-related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes non-U.S. agencies, sovereigns, supranationals and local authorities.

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.

Bloomberg Barclays U.S. Treasury Index: measures U.S. dollar-denominated fixed-rate, nominal debt issued by the U.S. Treasury.

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.