March 2019

Income Fund
Quarterly Review

William Blair

8476399

William Blair Income 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. 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. 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. The Fund is also subject to interest rate and foreign investments risk. Foreign investments often involve additional risks, including political instability, differences in financial reporting standards and less stringent regulation of securities markets. 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. Investments with longer maturities, which typically provide higher yields than securities with shorter maturities, may subject the Fund to increased price changes resulting from market yield fluctuations. 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.

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.

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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Market Commentary & Performance

March 2019

The Bloomberg Barclays U.S. Aggregate Index returned 2.94% during the first quarter of 2019 as declining interest rates and narrowing risk spreads created a period of strong performance. The Index returned 4.48% over the trailing twelve months ending 3/31/19.

The Federal Open Market Committee (FOMC) kept the target range of the federal funds steady during the first quarter at its range of 2.25% - 2.50%. Market participants changed their beliefs regarding future FOMC interest rate decisions during the quarter. The fed funds futures market implied that market participants expected the FOMC to cut the fed funds rate by 25 basis points by the end of 2019 with no probability of a hike.

The FOMC also updated their plans regarding the size and composition of the balance sheet. The FOMC had been permitting the balance sheet to reduce by no more than $50 billion per month since October 2017. The FOMC will permit the balance sheet to reduce by no more than $35 billion from May – September 2019 and by no more than $20 billion starting in October 2019.

The FOMC also communicated plans to change the composition of the balance sheet so that is comprised of primarily Treasury securities. The FOMC intends to allow the balance sheet's agency mortgage-backed securities (MBS) to decline at a rate of no more than $20 billion per month, while any cash flows generated in excess of $20 billion per month will be reinvested into Treasury securities. The FOMC also stated that "limited sales of agency MBS might be warranted in the longer run to reduce or eliminate residual holdings. The timing and pace of any sales would be communicated to the public well in advance."

The agency MBS Index generated positive total returns and excess returns during the first quarter. All coupon segments of the market achieved positive total and excess returns. Within 30-year pools, 4.0% and 4.5% coupon cohorts underperformed most other coupon cohorts as those segments had been the current production coupons and were therefore the most sensitive to prepayment risk given the decline in interest rates.

Corporate bonds experienced gains and outperformed other segments of the market during the first quarter following the challenging environment of the fourth quarter of 2018. All major market segments experienced gains. Longer-maturity corporate bonds outperformed shorter-maturity corporate bonds, while lower-quality segments outperformed higher-quality segments. Corporate bonds domiciled in emerging markets also generated strong gains.

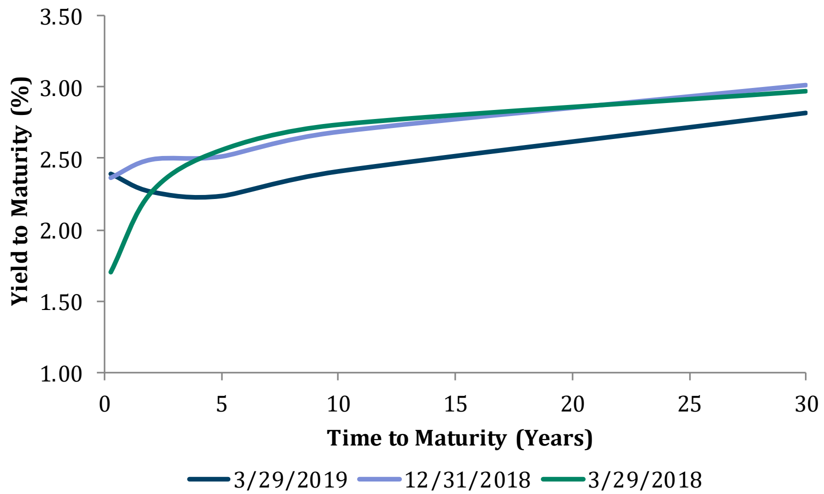
The William Blair Income Fund (Class N) outperformed the Bloomberg Barclays Intermediate Government/Credit Index during the first quarter. Sector allocation contributed to results, as the Fund was underweight to fixed-rate Treasuries. Positions in bonds issued by Goldman Sachs, Toll Brothers, and ConocoPhillips contributed to results. An allocation to higher-coupon segments of the agency MBS market impacted results favorably. The Fund was underweight to BBB-rated corporate bonds, and that hindered relative results as BBB-rated corporate bonds generated strong performance.

The William Blair Income Fund underperformed the Bloomberg Barclays Intermediate Government/Credit Index over the trailing year ending 3/31/2019. The Fund's duration hindered results, as the Fund had less interest rate exposure during a period of declining interest rates. High-coupon agency mortgage-backed securities gained but underperformed Treasury alternatives in the Index and detracted from performance. An allocation to U.S. TIPS hindered results. Positions in bonds issued by Wells Fargo, Bank of America, and ConocoPhillips contributed to results.

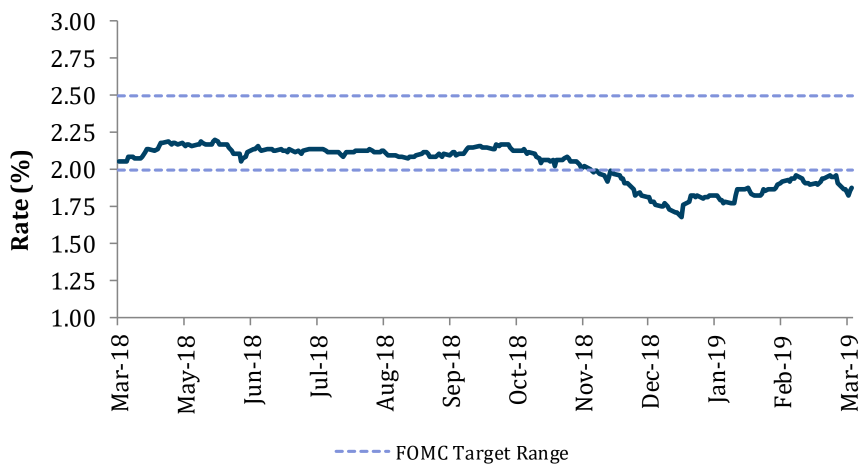
Treasury Market Overview

March 31, 2019

U.S. Treasury Yield Curve



10-Year Breakeven Inflation Rate



	Total Return		1 YR Change in Yield		
	YTD	1 YR	3/29/19	3/29/18	Difference
3 Month	0.59%	2.12%	2.39	1.71	0.68
2 Year	0.97%	2.56%	2.26	2.27	0.00
5 Year	1.86%	4.37%	2.23	2.56	-0.33
10 Year	3.08%	5.60%	2.41	2.74	-0.33
30 Year	4.98%	6.26%	2.82	2.97	-0.16

- U.S. Treasuries generated positive returns YTD as interest rates fell.
- TIPS outperformed nominal Treasuries YTD after adjusting for maturity.
- The current breakeven rates on U.S. TIPS are at levels below the lower end of the FOMC's stated target range for inflation of 2.0% - 2.5% per year.

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

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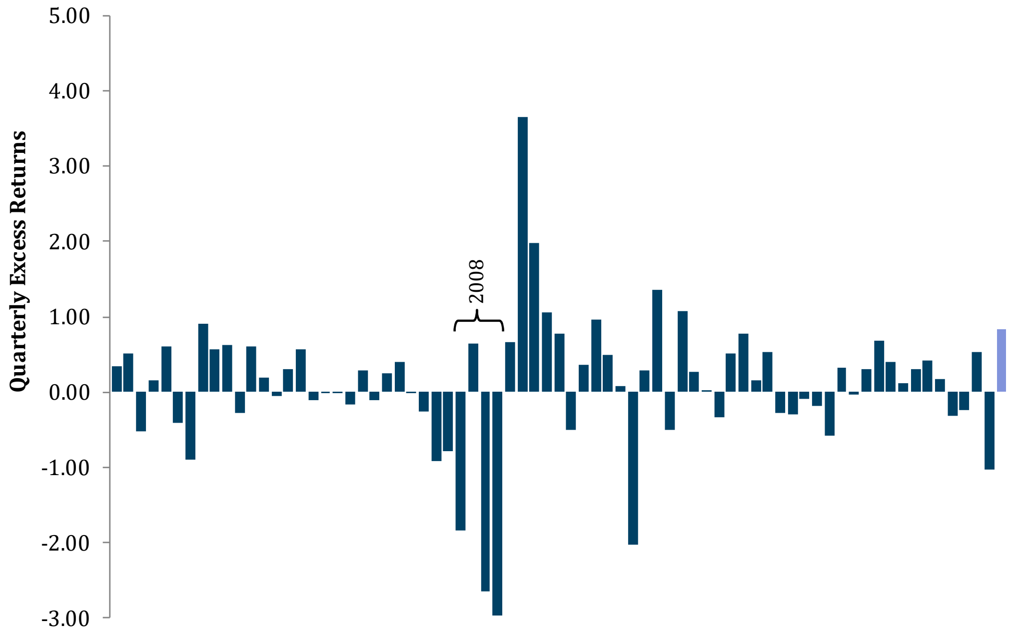
Fixed Income Spread Sectors Overview

March 31, 2019

Bloomberg Barclays Capital Aggregate Index – Since 2001



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

Annual Excess Returns – Through 3/31/19

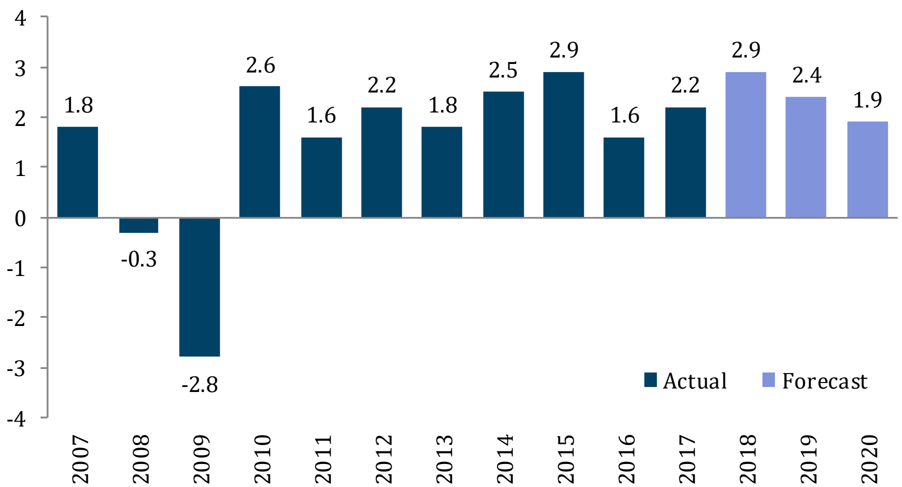
	Bloomberg Barclays Aggregate Index	U.S. Mortgage Backed Securities	U.S. Corporate Investment Grade	U.S. Corporate High Yield	EM USD Aggregate
2001	0.54	-0.75	2.72	-2.85	-5.41
2002	0.29	1.73	-2.45	-13.29	0.23
2003	1.55	0.11	5.80	26.42	24.65
2004	1.03	1.42	1.63	8.00	8.23
2005	-0.31	-0.37	-1.15	0.47	9.59
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	-1.01	-0.59	-3.15	-3.58	-3.45
2019	0.84	0.28	2.73	5.73	3.34

Source: Bloomberg Barclays.

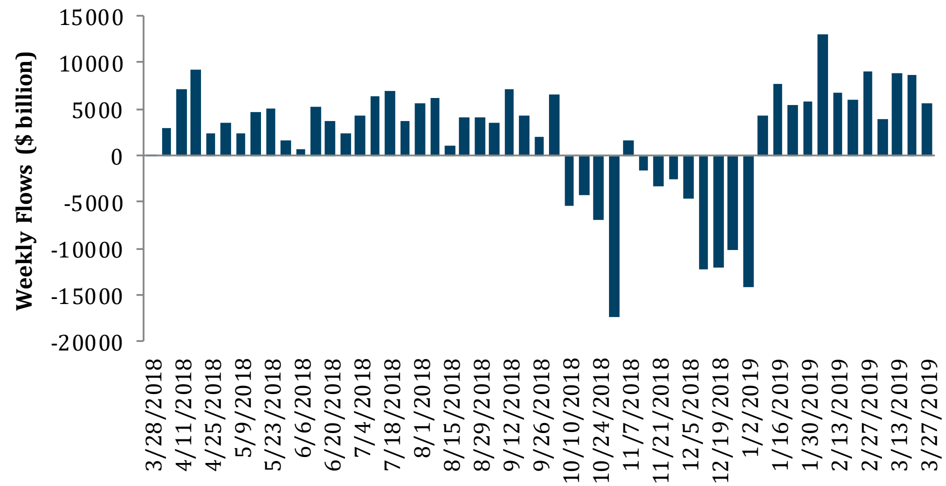
Credit Market Overview

March 31, 2019

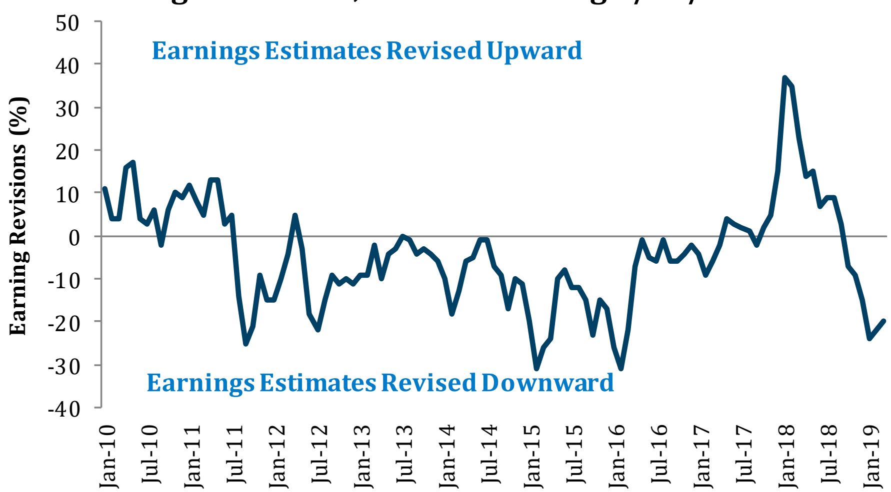
Real U.S. GDP Growth (%) Since 2007



ICI Taxable Bond Long-Term Mutual Fund and ETFs Flows



U.S. Earnings Revisions, 10 Years Ending 3/31/19



- Corporate bond risk spreads widened throughout the year in 2018, but then narrowed YTD in 2019.
- Corporate fundamentals are mixed. U.S. GDP is growing, and it is forecasted to grow steadily. Corporate leverage statistics remain relatively stable. Corporate earnings sentiment turned negative for a variety of reasons: it came off a high base following U.S. corporate tax reform in early 2018, concerns over trade wars, and/or equity market volatility.
- Fund flows had a negative impact on corporate bonds in 2018. Many technical factors impacted bonds negatively in 2018, including rising interest rates, a flattening yield curve, U.S. Treasury issuance patterns, and outflows from the asset class. Fund flows turned positive in 2019, and risk spreads tightened.

Source: Bloomberg, MSCI, William Blair Investment Management, ICI Investment Company Institute.

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Credit Market Overview: Performance

March 31, 2019

	Total Returns (%)		Excess Returns (%)	
	YTD	1Y	YTD	1Y
U.S. Corporate Investment Grade	**5.14**	**4.94**	**2.73**	**0.27**
U.S. Corporate High Yield	7.26	5.93	5.73	2.17
EM USD Aggregate	5.43	4.38	3.34	-0.02
1-5 Year Credit	2.61	4.42	1.39	1.24
5-10 Year Credit	5.26	6.06	2.90	1.02
10+ Year Credit	7.97	4.38	4.12	-1.73
AA+	3.69	5.08	1.57	0.83
A	4.70	4.78	2.29	0.10
BBB	5.73	4.97	3.28	0.25
BB	7.21	6.32	5.58	2.41
B	7.21	6.38	5.75	2.72
CCC	7.15	2.73	5.74	-0.83
Industrial	5.50	4.96	2.95	0.15
Financial	4.61	5.18	2.57	0.91
Utillity	4.57	3.62	1.56	-1.69
Non-Corporate	3.49	4.66	1.45	0.44
EM USD Corporate Investment Grade	4.33	3.69	2.53	0.96
EM USD Corporate: High Yield	6.00	1.28	4.28	-2.16

Source: Bloomberg Barclays.

Excess returns measure relative performance versus a duration-neutral basket of U.S. Treasuries

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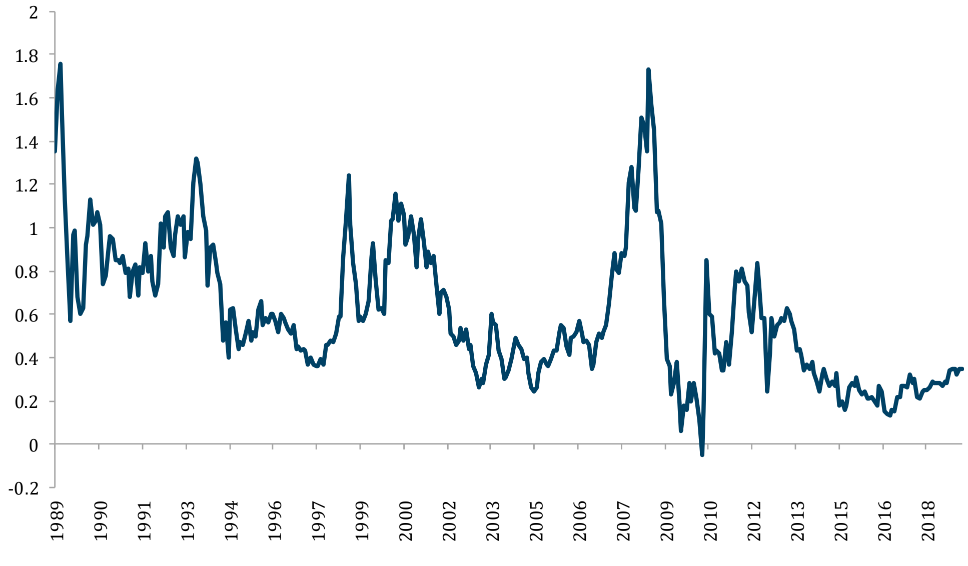
MBS Market Overview

March 31, 2019

U.S. Mortgage Backed Securities – Treasury OAS



- The mortgage-backed securities (MBS) Index earned positive excess returns YTD.
- All coupon cohorts generated positive excess returns YTD.
- Excess returns measure relative performance versus a duration-neutral basket of U.S. Treasuries.

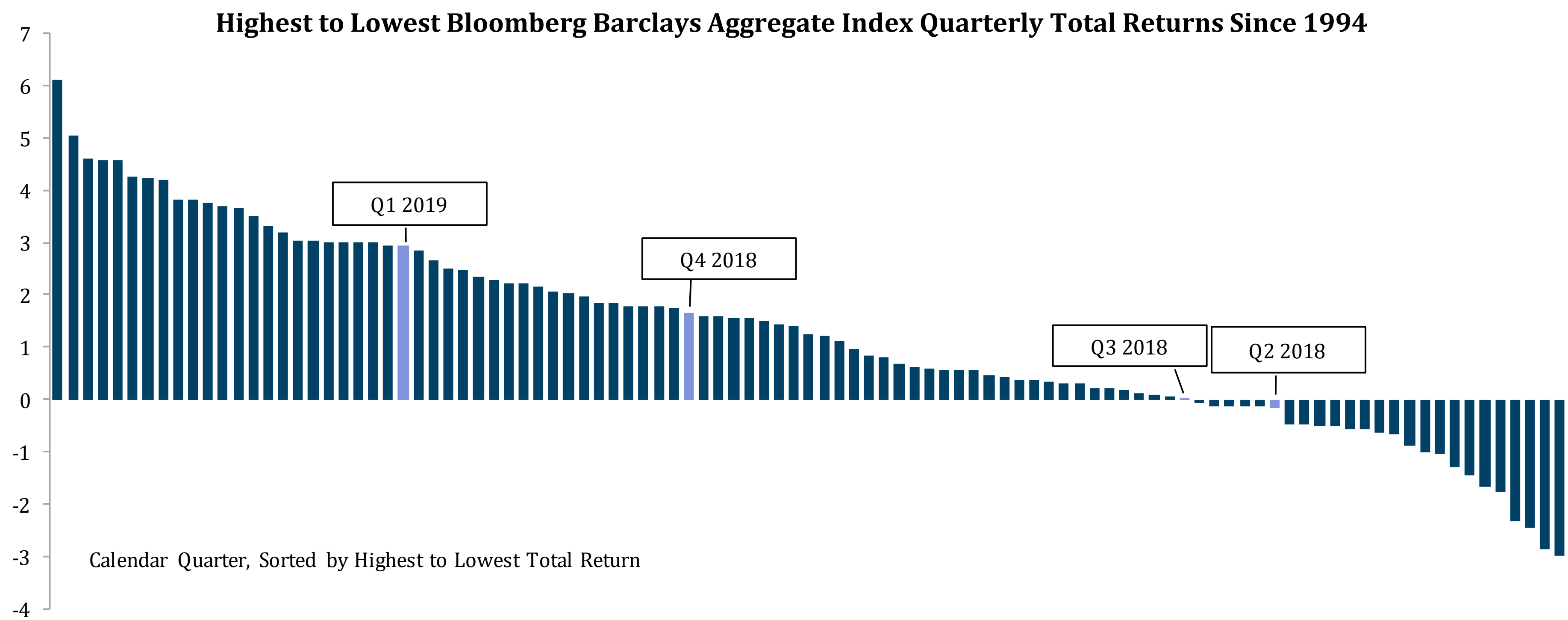
MBS Returns by Maturity and Coupon
As of 3/29/19

	Total Returns		Excess Returns	
	YTD	1 YR	YTD	1 YR
MBS Fixed Rate Index	**2.21**	**4.42**	**0.30**	**0.05**
Conventional 30 Yr	2.26	4.51	0.29	0.04
3.0 Coupon	2.82	5.36	0.55	0.52
3.5 Coupon	2.29	4.81	0.23	0.19
4.0 Coupon	1.98	4.13	0.17	-0.18
4.5 Coupon	1.86	3.48	0.17	-0.63
5.0 Coupon	2.05	3.21	0.46	-0.70
5.5 Coupon	1.69	2.72	0.07	-1.08
6.0 Coupon	2.00	4.87	0.37	1.02
6.5 Coupon	2.46	5.40	0.88	1.63
Conventional 15 Yr	1.92	3.87	0.39	0.13
2.5 Coupon	2.14	4.05	0.58	0.27
3.0 Coupon	1.82	3.89	0.26	0.11
3.5 Coupon	1.68	3.47	0.21	-0.21
4.0 Coupon	1.54	3.61	0.20	0.13
4.5 Coupon	1.25	3.10	0.23	0.26

Source: Bloomberg Barclays.

Fixed Income Market Returns

March 31, 2019



	Total Return %	
	YTD	1 YR
Bloomberg Barclays Aggregate Index	2.94	4.48
Bloomberg Barclays Treasury Index	2.11	4.22
Bloomberg Barclays U.S. TIPS Index	3.19	2.70
Bloomberg Barclays U.S. MBS Index	2.17	4.42
Bloomberg Barclays Corporate Index	5.14	4.94
Bloomberg Barclays U.S. High Yield Index	7.26	5.93
Bloomberg Barclays EM USD Aggregate Index	5.43	4.38

Source: Bloomberg Barclays.

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William Blair Income Fund Performance

March 31, 2019

Performance %	Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Income Fund (BIFIX) - Class I	2.69	2.69	2.51	1.51	1.85	3.59
Income Fund (WBRRX) - Class N	2.50	2.50	2.20	1.26	1.60	3.35
Bloomberg Barclays Int. Gov/Credit Bond Index	2.32	2.32	4.24	1.66	2.12	3.14
Morningstar Short-Term Bond Category	1.71	1.71	2.97	1.87	1.45	2.70

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Income Fund Expense Ratios:

	Gross	Net
Class I Shares	0.62%	0.62%
Class N Shares	0.88%	0.85%

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. Class I inception: 10/1/1999, Class N inception: 10/1/1990.

The Bloomberg Barclays Intermediate Government/Credit Bond Index indicates broad intermediate government/corporate bond market performance. A direct investment in an index is not possible.

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

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William Blair Income Fund Performance Analysis

March 31, 2019

QTD Contributors

- Sector allocation contributed to results, as the portfolio was underweight to fixed-rate Treasuries.
- Positions in bonds issued by Goldman Sachs, Toll Brothers, and ConocoPhillips contributed to results.
- An allocation to higher-coupon segments of the agency MBS market impacted results favorably.

QTD Detractors

- The portfolio was underweight to BBB-rated corporate bonds, and that hindered relative results as BBB-rated corporate bonds generated strong performance.

1 Year Contributors

- Positions in bonds issued by Wells Fargo, Bank of America, and ConocoPhillips contributed to results.

1 Year Detractors

- The portfolio's duration hindered results, as the portfolio had less interest rate exposure during a period of declining interest rates.
- High-coupon agency mortgage-backed securities gained but underperformed Treasury alternatives in the Index and detracted from performance.
- An allocation to U.S. TIPS hindered results.

William Blair Income Fund Attribution

Through March 31, 2019

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%**	**273**	**232**	**41**	**273**	**232**	**41**	**-14**	**52**	**3**
Treasuries	2.5%	60.1%	-57.6%	405	159	246	10	96	-86	-90	41	2
Agencies	0.0%	2.1%	-2.1%	0	137	-137	0	3	-3	-3	1	0
Residential Mortgages	46.9%	0.0%	46.9%	278	0	278	132	0	133	72	29	0
ABS	3.7%	0.0%	3.7%	102	0	102	4	0	4	3	-1	0
IG Corps	33.9%	36.2%	-2.3%	348	352	-4	119	127	-8	-4	-4	1
Emerging Markets	1.9%	1.5%	0.5%	442	440	2	8	6	2	0	2	-1
Cash Securities	11.0%	0.1%	11.0%	0	0	0	0	0	0	7	-15	0

Trailing 1 Year

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%**	**322**	**424**	**-102**	**322**	**424**	**-102**	**-39**	**-60**	**-3**
Treasuries	2.8%	59.0%	-56.2%	386	381	4	10	228	-220	-215	23	-6
Agencies	0.0%	2.4%	-2.4%	0	340	-340	0	7	-8	-7	1	0
Residential Mortgages	48.8%	0.0%	48.8%	286	0	286	135	0	136	180	-62	0
ABS	2.5%	0.0%	2.5%	266	0	266	7	0	8	6	0	0
IG Corps	33.0%	36.9%	-4.0%	444	502	-58	150	182	-31	-28	-1	-1
Emerging Markets	3.1%	1.6%	1.6%	630	494	136	13	7	6	3	-1	4
Cash Securities	9.8%	0.1%	9.7%	1	0	1	0	0	0	21	-26	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 Income Fund Strategy

March 31, 2019

Decision Factor	Positioning	Strategy
Interest Rates & Yield Curve	Neutral	• Strategy risk discipline to maintain benchmark-like duration and yield curve exposures
Treasuries & Agencies	Underweight	• Allocation to TIPS. We find the embedded option that benefits from unexpected inflation an appealing feature versus owning nominal Treasury notes and bonds. • Underweight agencies. We view agency MBS as a more attractive alternative
Securitized Sectors	Overweight	• Overweight agency MBS. 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. • Overweight ABS. We find certain floating-rate ABS to offer attractive yields and protection against rising interest rates • Underweight CMBS. We favor owning corporate REITs instead, as both are characterized by the same collateral but REITs are actively-managed
Credit Sectors	Neutral	• Overweight investment-grade financials. We emphasize bonds issued by financial institutions with competitive operating performance, sound balance sheet metrics, and strong management teams. • Underweight investment-grade industrials. We find valuations of high-quality, intermediate maturity corporate bonds to be unappealing • Overweight corporations domiciled in emerging markets. Within the sector, we have found value in Global Leaders—large, multinational companies with a market leadership position and strong management teams

William Blair Income Fund Characteristics

	Income Fund													Bloomberg Barclays Gov't/Credit Intermediate 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	12/31/18	3/31/19	3/31/19
Effective Duration	3.71	3.74	3.83	3.68	3.50	3.47	3.69	3.26	3.18	3.38	3.24	2.86	2.96	3.91
Convexity	-0.04	0.05	0.04	0.02	-0.14	0.08	-0.22	0.01	-0.04	0.04	0.00	0.11	0.01	0.22
Sector Composition														
Nominal Treasuries	25.8%	17.3%	3.3%	5.2%	3.9%	0.7%	0.8%	0.9%	1.0%	0.9%	0.0%	0.0%	0.0%	60.5%
TIPS	0.0%	0.0%	1.5%	3.8%	4.1%	7.5%	6.0%	5.1%	4.7%	5.4%	2.7%	3.1%	2.5%	0.0%
Agency	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%
MBS	28.1%	25.0%	29.2%	26.9%	42.1%	37.2%	52.1%	49.7%	53.8%	49.9%	54.5%	49.8%	47.6%	0.0%
CMBS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ABS	12.3%	4.2%	5.9%	9.1%	5.3%	3.6%	7.0%	9.6%	8.8%	9.8%	3.3%	3.5%	3.9%	0.0%
Credit	31.9%	52.5%	60.0%	53.1%	43.5%	50.0%	33.0%	33.4%	26.3%	33.7%	38.6%	33.7%	36.9%	37.6%
Cash	-1.0%	1.0%	0.1%	1.9%	1.1%	1.0%	1.1%	1.3%	5.4%	0.3%	0.8%	10.0%	9.2%	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%**	**100.0%**
Rating Categories*														
TSY/AGY/AAA	55.8%	44.5%	38.6%	44.8%	44.8%	53.3%	80.9%	90.6%	91.3%	64.7%	61.4%	66.3%	62.3%	66.6%
AA	6.8%	9.2%	12.9%	11.8%	11.8%	7.1%	19.1%	9.4%	8.7%	3.5%	1.9%	4.9%	4.6%	6.6%
A	26.9%	35.3%	39.9%	33.9%	33.9%	30.3%	0.0%	0.0%	0.0%	22.0%	28.7%	21.3%	23.8%	14.5%
BBB	9.1%	11.0%	8.3%	8.3%	8.5%	8.4%	0.0%	0.0%	0.0%	9.8%	8.0%	7.6%	8.6%	12.3%
<BBB	1.4%	0.0%	0.3%	0.3%	1.0%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	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%**	**100.0%**
Credit Composition														
DM IG Industrial	16.7%	28.1%	35.1%	30.4%	30.2%	23.1%	11.1%	8.5%	10.2%	13.5%	14.2%	12.1%	16.7%	17.1%
DM IG Financial	6.0%	15.2%	16.3%	15.5%	9.8%	19.0%	18.2%	16.8%	12.7%	15.4%	19.0%	18.4%	18.7%	12.2%
DM IG Utilities	1.9%	4.3%	4.0%	3.1%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%
Emerging Markets	5.9%	4.9%	4.6%	4.1%	2.0%	7.9%	3.7%	8.1%	3.4%	4.9%	5.4%	3.2%	1.5%	1.7%
DM High Yield	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	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%	0.0%	5.2%
	31.9%	**52.5%**	**60.0%**	**53.1%**	**43.5%**	**50.0%**	**33.0%**	**33.4%**	**26.3%**	**33.7%**	**38.6%**	**33.7%**	**36.9%**	**37.6%**

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 Income 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

March 31, 2019

We believe that the Federal Open Market Committee (FOMC) will be data-dependent in its decision to change the target range of the federal funds rate in 2019. We believe that the FOMC will pay close attention to inflationary pressures in its future decisions to avoid risks associated with disinflation. The U.S. economy is growing; forecasters predict a real GDP growth rate of approximately 2.0% during 2019. In addition, the U.S. labor market is adding jobs and the unemployment rate is at 3.7%. Estimates of wage inflation are roughly 3.4%, while estimates of core personal consumption expenditures (PCE) have been roughly 1.8%. Macroeconomic theory predicts that a robust labor market creates wage inflation, which in turns spurs broader inflation.

We believe that the FOMC's plans to reduce the size of the Fed's balance sheet will continue to be executed with little disruption to the markets. We believe this is attributable, in part, to strong communication efforts and adequate advance notice. 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 below 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. We believe there are attractive opportunities in the corporate bond market, and we find risk premiums of higher-coupon segments of the agency MBS market attractive.

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 above the 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.

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.