William Blair

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Fund Manager Commentary
William Blair Macro Allocation Fund

Performance Summary

The Macro Allocation Fund outperformed its benchmark indices, the BofA Merrill Lynch 3-Month U.S. Treasury Bill Index and the Long Term Comparative Index[1], for the fourth quarter and year-to-date. The performance of Market strategy was strongly positive in the fourth quarter, with a meaningfully positive contribution from long exposure to European equity in general and, more specifically, within European equity from Spain and from Italy. Short exposure to global safe-haven sovereign fixed income markets and long exposure to U.S. credit spreads also contributed positively to Market performance. Market strategy changes during the quarter were focused on trimming risk exposures in recognition of this aforementioned performance being driven by prices generally moving closer to fundamental values. Currency strategy performance was also a significant contributor to portfolio returns in the quarter. A rebound for the Indian rupee, in which the strategy took an increased overweight the prior quarter, accounted for a significant amount of this positive performance. Depreciation of the Australian dollar, in which the strategy is short, also contributed. Other long exposures to Asian currencies were positive contributors as well.

Fund Positioning & Outlook

The investment opportunity set in asset markets remains more attractive than is typical although the set has continued to narrow during the fourth quarter as risky assets like equity and credit have been moving higher in price (and closer to fundamental value) and safe-haven sovereign fixed income markets have been moving lower in price (and closer to fundamental value). Concerns about the ability of developed market policy makers to resolve current fiscal challenges without damaging medium-term growth prospects, and aggressive central bank monetary policy postures are the primary dynamics that are driving the attractive long-term fundamental opportunities in undervalued equity and credit markets, and overvalued safe-haven government bonds.

Macro Allocation Fund Allocations

Global Equity	**52.3**
United States	
U.S. Developed Large Cap Value	13.6
U.S. Developed Large Cap Growth	-7.1
U.S. Developed Mid Cap	5.6
U.S. Developed Small & Micro Cap	-12.0
Canada	1.1
Europe (Excluding UK)	34.0
United Kingdom	7.6
Asia Developed	1.8
Emerging Markets	7.7
Global Fixed Income	**-14.3**
U.S. Treasury and Credit	12.8
Non-U.S. 10-Year	
Germany (10-Year)	-12.1
Japan (10-Year)	-5.0
Switzerland (10-Year)	-10.8
Emerging Markets Debt	0.8
Cash	**62.0**
TOTAL MARKET ALLOCATION	**100.0**

Currency	
U.S. Dollar (USD)	84.4
Canadian Dollar (CAD)	-3.5
Other Americas	5.4
Euro (EUR)	-7.9
Swiss Franc (CHF)	-16.9
British Pound (GBP)	3.6
Other Europe	-2.8
Australian Dollar (AUD) and New Zealand Dollar (NZD)	-19.9
Japanese Yen (JPY)	0.0
Chinese Yuan (CNY)	11.0
Asia (Excluding JPY and CNY)	46.0
Other	0.6
TOTAL	**100.0**

The quarter began with another last second debt ceiling raise in October and an end to the U.S. government shutdown, but was otherwise marked by relative calm on the fiscal policy front particularly in Europe as Germany was pre-occupied with its own election and coalition formation. Instead, most of the focus during the quarter remained on monetary policy and the Fed's decision to begin to taper its monthly bond purchases in 2014, while pledging to keep short-term interest rates low for even longer than markets had anticipated. The middle of the second quarter announcement about tapering, which had the effect of floating a trial balloon, proved to immediately influence much of the adjustment process for longer-term yields prior to a marginal follow-through on the December policy statement. In Europe, inflation readings below consensus forecast led the European Central Bank (ECB) to initiate an unanticipated rate cut and to maintain a more accommodative bias throughout the quarter. The ECB also contemplated changes to improve the transmission practice for monetary policy and prepared for asset quality reviews of the major banks.

Market strategy is positioned net long of equity, with effective exposure of about 52% at quarter-end compared with about 54% long at the beginning of the quarter. This change in effective exposure was the result of a reduction in the level of put protection as well as a reduction in the linear exposure. Early in the quarter, after the debt ceiling resolution, put protection on the S&P 500 was reduced and then later replaced with a non-linear exposure implemented via a collar strategy focused on U.S. small cap equity where implied volatility remained below normal and valuation was particularly unattractive. Other equity strategy changes for the quarter included a reduction to broad EAFE exposure (Europe, Australia and the Far East), France, the Netherlands and South Africa and an increase in exposure to Italy and U.S. value.

Market strategy is positioned net short of government bonds, and the third quarter ended with -14% exposure compared with -23% at the beginning of the quarter. The slight decrease in net short exposure was due to an increase in exposure to U.S. government bonds at the end of the year.

The team also reduced its credit spread exposure to the U.S. high yield market from 8% to 4% in the middle of the quarter, while maintaining exposure to U.S. MBS spreads at 15%, U.S. investment grade spreads at 12%, and to local currency emerging markets debt at 1%.

Currency strategy is positioned long of Asian currencies, key among these the Indian rupee, short Australian dollar and other commodity-sensitive currencies, and short European currencies. Asian overweight exposures also include the Chinese yuan and Korean won, plus others. The underweight to European currencies is most pronounced in the case of the Swiss franc, and the strategy is long the British pound, and modestly long of central European currencies (Hungarian forint and Polish zloty, partly offset by short exposure to the Czech koruna).

The Indian rupee, which began weakening in May 2013, fell sharply between then and late August, opening up a very deep undervaluation. An existing overweight exposure caused a performance drag earlier in the year due to this depreciation, but the team's assessment of market behavioral developments caused an increase to the position in August, which was subsequently rewarded with a bounce. The rupee exposure is the largest overweight currency position, and provided the biggest positive performance contribution in the fourth quarter.

The portfolio had been significantly short of Japanese yen at the start of the year but this was scaled back as the depreciation of the yen reduced the remaining justification for the exposure. A small short yen position remained in place at year end.

The Australian and New Zealand dollars weakened in the fourth quarter with the larger move occurring for the Australian currency. This was assisted by two interest rates cuts in Australia during the year, which were a response to the central bank's desire to curb the currency's overvaluation. The euro and other European currencies appreciated slightly through a period of relative quiet in respect of the eurozone fiscal drama, itself likely influenced by the focus of Germany's leaders on that country's general election in September and the subsequent time taken to form a governing coalition. Underweight exposures in continental European currencies were a modest drag on performance in the quarter.

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. For the most current month-end performance information, please call 1-800-742-7272, or visit our website at www.williamblairfunds.com.

[1]The Long-Term Comparative Index is comprised of the following indices: 40% Barclays U.S. Aggregate Index, 30% MSCI All Country World Index (net), and 30% Bank of America/Merrill Lynch 3-month U.S. Treasury Bill Index. The Index is unmanaged, does not incur fees or expenses, and cannot be invested in directly.

Fund allocations are as of December 31, 2013. Allocations are subject to change without notice and are not intended as investment advice.

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. Top ten holdings are shown as a percentage of total net assets.

The Fund involves a high level of risk and may not be appropriate for everyone. You could lose money by investing in the Fund. There can be no assurance that the Fund's investment objective will be achieved. The Fund is not a complete investment program and you should only consider the Fund for the alternative portion of your portfolio. Separate accounts managed by the Advisor may invest in the Fund and, therefore, the Advisor at times may have discretionary authority over a significant portion of the assets invested in the Fund. In such instances, the Advisor's decision to make changes to or rebalance its clients' allocations in the separate accounts may substantially impact the Fund's performance. The Fund is designed for long-term investors.

The Fund may use investment techniques and financial instruments that may be considered aggressive—including but not limited to the use of futures contracts, options on futures contracts, securities and indices, forward contracts, swap agreements and similar instruments. Such techniques may also include short sales or other techniques that are intended to provide inverse exposure to a particular market or other asset class, as well as leverage. These techniques may expose the Fund to potentially dramatic changes (losses) in the value of certain of its portfolio holdings.

Investments are subject to a number of other different types of risk, including market risk, asset allocation risk credit risk, commodity risk, counterparty and contractual default risk, currency risk, and derivatives risk. For a more detailed explanation and discussion of these risks, please read the Fund's Prospectus.

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, which you may obtain by calling 1-800-742-7272. Read it carefully before you invest or send money.