

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

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FILER

WILLIAM BLAIR MUTUAL FUNDS INC

CIK: **822632** | Fiscal Year End: **1231**

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Mailing Address
222 W ADAMS STREET
CHICAGO IL 60606

Business Address
222 W ADAMS ST
CHICAGO IL 60606
3123648000

February 2, 1996

Dear Shareholders:

1995 WAS GREAT.

<TABLE>
<CAPTION>

William Blair Funds:	GROWTH FUND	INTERNATIONAL GROWTH FUND	INCOME FUND	LIMITED TERM TAX-FREE FUND	READY RESERVES FUND
<S>	<C>	<C>	<C>	<C>	<C>
1995.....	29.1%	7.2%	14.4%	10.0%	5.5%
1994.....	6.5%	(0.04%)	(0.7%)	(1.6%)*	3.7%

<TABLE>
<CAPTION>

Benchmarks:	S&P 500	RUSSELL 2000	LIPPER INTERNATIONAL	LEHMAN INTERMED. BOND	MERRILL LYNCH INTERMED. MUNI.	T-BILLS (90 DAY)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1995.....	37.5%	28.4%	9.3%	15.3%	10.6%	5.2%
1994.....	1.3%	(1.8%)	(0.9%)	(1.9%)	(2.7%)	3.7%

* Inception date 1/24/94.

At the beginning of the year, investors did not have high expectations for 1995. The prior year had been difficult. Interest rates rose dramatically, and the stock market struggled all year. While the larger company S&P 500 Index rose slightly, almost all of the mid/smaller company indices declined. A "wall of worry" set the stage for positive surprises, and there were many. Inflation did not rise at all and, as a result, interest rates declined substantially. Corporate earnings were good (up an estimated 17%), driven by both increased productivity and lower cost orientation that has spread across all sectors of the economy. Even political/government developments held some promise of less drag (regulation and taxes) on the economy. All in all, 1995 was a banner year.

Unfortunately we can not expect things to get much better. Corporate earnings will likely be up less than 10% in 1996. Additional significant interest rate declines (to under 5%), while good for bonds, would only be the result of economic weakness, causing corporate earnings disappointments and leading to a difficult stock market. Unlike 1995 when all financial assets performed well, we are not likely to have both stocks and bonds moving up together. However we see no major signs, other than a "technology" euphoria that is now abating, that the stock market has a significant problem. By "significant" we mean more than the normal 10% correction which one should always expect could happen at any time.

In 1994 and 1995, interest rate movements had a major impact on investment returns. 1996 is likely to be much more stable. At least in the near term we see little upward rate pressure. While the Fed is likely to ease a little more, we don't think the economy is slipping into a recession which would force significant action. We expect modest 4-7% returns for fixed-income securities.

Although absolute returns for the Growth Fund were excellent, and it is difficult to be too disappointed with a near 30% return, we did underperform the S&P 500. We deliberately did not

shift into the kind of technology stocks that were the top performers, fearing that they will have a hard landing in the not-too-distant future (which actually may already be upon us). Compared to the U.S., International markets had a more subdued year, with Japan essentially flat and many of the emerging markets with negative returns. Smaller company stocks underperformed worldwide in 1995. The International Growth Fund lagged on a relative basis because of our strategic bias towards faster growing, somewhat smaller companies in Europe and Japan and our 10% exposure to emerging markets. Both our equity funds remain well positioned for the long-term and we look for better relative performance in 1996.

Our fixed-income and short-term reserve funds had predictably good years with solid returns. Despite good performance, the growth in assets for the bond funds has been almost non-existent, especially in the Limited Term Tax-Free

Fund. Talk in Washington of a flat tax, with no income tax on any interest income regardless of source, has caused tax-exempt bond's performance to lag, and their yields relative to taxable bonds are now more attractive than any time in almost ten years.

We are looking forward to serving your investment needs throughout the coming year.

Rocky Barber
President

2

February 2, 1996

Dear Shareholders:

The U.S. financial markets enjoyed an extraordinary advance in 1995. A powerful combination of strong corporate profit growth and lower interest rates drove stocks to record levels. Despite a backdrop of moderating economic growth during the year, corporate profits increased an estimated 17% as profit margins benefitted from productivity gains and other factors. As a result, quarterly earnings reports generally exceeded consensus Wall Street expectations and drove analysts' profit forecasts upward through most of the year. More surprising, however, was the sharp decline in interest rates where long term Treasury yields declined to the 6% level by year end versus consensus expectations of over 8% a year ago. In a nutshell, the positive trends for both earnings and interest rates against a rather pessimistic forecast a year ago was the near ideal environment for upside surprise and return.

A closer analysis of the stock market in 1995 reveals that small cap stock returns trailed behind large cap stocks for the second consecutive year.

<TABLE>

<CAPTION>

	1995	1994
<S>	<C>	<C>
WILLIAM BLAIR GROWTH FUND	29.1%	6.5%
S & P 500	37.5	1.3
Russell 2000	28.4	-1.8
Lipper Growth	31.5	-1.6

</TABLE>

The Russell 2000 Index of smaller companies gained ONLY 28% compared with the 38% return for the S&P 500 index. In addition to the aforementioned productivity gains, many large company earnings results were enhanced by corporate restructuring, cost reduction programs and foreign currency gains from overseas subsidiaries. As a result earning increases have been very strong and profit margins are at record levels. However, many of these factors are non-recurring, and will not drive sustainable growth. We expect the historically faster growth rates of smaller company stocks to become more evident in 1996. Consensus expectations for growth in S&P 500 earnings in 1996 are less than 10%, which is well below the growth rate seen in the past two years. With this in mind, the relative valuation of smaller company stocks currently stands near the midpoint of historic ranges and supports a more positive view towards future performance.

Technology was the strongest performing sector in the market by a relatively wide margin with gains of about 45% versus about 33% for the rest of the market. Our investment philosophy has a strong bias towards business franchises that we believe have above average predictability and consistency to their financial results. For that reason we have historically had less emphasis on the more volatile, pure technology product companies and 1995 was no exception. We prefer to own applied technology companies which sell products or services based on new technological advancements available in the market or which use them to lower their costs or improve their productivity. This past year was difficult for us in that small and large cap portfolios alike were strongly rewarded for taking more risk than we prefer. We strive to outperform by focusing on high quality companies with excellent growth prospects, yet below average business volatility. Our superior long term performance supports this approach. On the other hand, a concentrated sector oriented strategy, especially one tilted towards technology, would clearly not be consistent with our philosophy.

3

Looking ahead to 1996, we see a much more modest, but still positive, return environment. Interest rates are still somewhat high in real (inflation adjusted) terms and should not be trending higher. The political climate is

unclear, but, generally moving in the right direction (balanced budget amendment, lower capital gains taxes, less regulation) and the aging baby boomers are just beginning to realize the necessity of saving and investing for their longer term needs. Offsetting these positive forces are the slowing rate of earnings growth and a strapped U.S. consumer. The risk of a 1997 U.S. recession, while not highly probable, will still cause some investor caution in 1996.

Ultimately, our challenge in 1996 will be to focus on companies that can achieve reasonably good earnings growth in an environment of low inflation, sluggish economies worldwide and ever increasing competition. We are also focusing on the market valuation excesses that have shown up in some specific stocks and are making adjustments as necessary.

Rocky Barber
 President
 Growth Fund Portfolio Manager

Mark A. Fuller, III
 Senior Vice President
 Growth Fund Portfolio Manager

4

 ILLUSTRATION OF AN ASSUMED INVESTMENT OF \$10,000 WITH
 REINVESTMENT OF CAPITAL GAIN DISTRIBUTIONS AND INCOME DIVIDENDS

<TABLE>

<CAPTION>

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	GROWTH FUND <C>	S&P 500 <C>
1/86	10000	10000
12/86	10979	11821
12/87	11856	12433
12/88	12700	14484
12/89	16567	19038
12/90	16233	18429
12/91	23435	24059
12/92	25219	25907
12/93	29131	28498
12/94	31011	28876
12/95	40026	39706

</TABLE>

5

 WILLIAM BLAIR MUTUAL FUNDS, INC.

GROWTH FUND

Portfolio of Investments December 31, 1995

<TABLE>

<CAPTION>

Shares	(all amounts in thousands)	Cost	Value
<S>	<C> <C>	<C>	<C>
COMMON STOCKS			
APPLIED TECHNOLOGY -- 20.4%			
205	* Acxiom Corporation	\$ 2,164	\$ 5,598
300	* Airtouch Communications, Inc.	8,099	8,475
198	* American Management Systems	4,702	5,940
115	Automatic Data Processing, Inc.	6,141	8,539
79	* Catalina Marketing Corporation	3,691	4,957
177	First Data Corporation	6,966	11,852
236	* International Imaging Materials Inc.	5,642	5,964
150	* NFO Research, Inc.	1,870	3,975
60	* Paging Network, Inc.	970	1,463
120	Reuters Holdings PLC (ADR)	4,568	6,615
115	Shared Medical Systems Corporation	3,448	6,237
100	* Solectron Corporation	3,678	4,412
		51,939	74,027

CONSUMER RETAIL -- 17.2%				
120		Albertson's, Inc.	3,487	3,945
200	*	Eckerd Corporation	6,508	8,925
165		Heilig-Meyers Company	4,213	3,032
250		Home Depot, Inc.	10,975	11,969
79	*	Kohl's Corporation	3,777	4,158
120	*	Micro Warehouse, Inc.	3,295	5,190
100	*	Office Depot, Inc.	1,372	1,962
100		The Pep Boys -- Manny, Moe & Jack	2,479	2,563
164	*	Staples, Inc.	1,792	3,989
127	*	Viking Office Products, Inc.	2,351	5,887
300		Wal-Mart Stores	7,484	6,675
136		Walgreen Company	3,257	4,063
			-----	-----
			50,990	62,358
			-----	-----

FINANCIAL SERVICES -- 9.8%				
100		Advanta Corporation, Class "A"	3,108	3,825
20		Advanta Corporation, Class "B"	535	728
174	*	Credit Acceptance Corporation	3,691	3,602
100		Federal Home Loan Mortgage Corporation	5,282	8,350
100		Household International, Inc.	3,396	5,912
185		MBNA Corporation	5,710	6,822
140		State Street Boston Corporation	5,180	6,300
			-----	-----
			26,902	35,539
			-----	-----

</TABLE>

6

<TABLE>				
<CAPTION>				
Shares	(all amounts in thousands)		Cost	Value
-----			-----	-----
<S>	<C>	<C>	<C>	<C>

MEDICAL-RELATED SPECIALTIES -- 9.8%				
150	*	Elan PLC (ADR)	\$ 4,708	\$ 7,294
106	*	Health Care & Retirement Corporation	3,336	3,707
200	*	Healthsouth Rehabilitation Corporation	2,871	5,825
195	*	Medaphis Corporation	4,214	7,200
100		Omnicare, Inc.	1,465	4,457
81	*	Quintiles Transnational Corporation	1,400	3,313
77	*	R.P. Scherer Corporation	2,716	3,783
			-----	-----
			20,710	35,579
			-----	-----

TECHNOLOGY -- 8.3%				
113	*	Digi International, Inc.	2,000	2,137
80		Linear Technology Corporation	2,202	3,140
100	*	Microsoft Corporation	5,443	8,775
98		Molex Incorporated	1,041	3,101
159		Molex Incorporated, Class "A"	2,751	4,857
80	*	Xilinx, Inc.	3,523	2,434
165	*	Zebra Technologies Corporation, Class "A"	2,900	5,603
			-----	-----
			19,860	30,047
			-----	-----

DISTRIBUTION -- 7.8%				
220		Alco Standard Corporation	5,900	10,037
60		Cardinal Health, Inc.	2,626	3,285
157	*	Gulf South Medical Medical Supply, Inc.	3,580	4,752
151	*	Peak Technologies Group, Inc.	3,950	4,734
80		Sysco Corporation	583	2,600
209	*	Thompson PBE, Inc.	3,482	2,933
			-----	-----
			20,121	28,341
			-----	-----

INDUSTRIAL PRODUCTS -- 7.7%				
160		Air Products & Chemicals, Inc.	7,456	8,440
110		Danaher Corporation	1,274	3,492
170		M.A. Hanna Company	3,940	4,768
196		Minerals Technologies, Inc.	5,250	7,158
137		OEA, Inc.	3,973	4,084
			-----	-----
			21,893	27,942
			-----	-----

SPECIALTY CONSUMER SERVICES AND PRODUCTS -- 6.1%				
225	*	CUC International, Inc.	3,470	7,678
173	*	Day Runner, Inc.	2,792	5,979
135	*	Department 56, Inc.	3,596	5,177

130	The Loewen Group, Inc.	2,308	3,291
		12,166	22,125

</TABLE>

7

<TABLE>

<CAPTION>

Shares or Amount		(all amounts in thousands)		Cost	Value
<S>	<C>	<C>	<C>	<C>	<C>
BUSINESS SERVICES -- 4.3%					
125	Cintas Corporation	\$ 3,828	\$ 5,571		
219	* Heartland Express, Inc.	3,877	4,333		
224	* Knight Transportation, Inc.	3,423	3,077		
120	* Rural/Metro Corporation	2,278	2,715		
		13,406	15,696		
FOOD RETAIL/PROCESSING -- 3.0%					
60	Pepsico, Inc.	3,501	3,353		
285	Wendy's International, Inc.	4,985	6,056		
106	* Whole Foods Market, Inc.	1,540	1,471		
		10,026	10,880		
TOTAL COMMON STOCK -- 94.4%					
		248,013	342,534		
SHORT-TERM INVESTMENTS					
\$3,559	Associates Corp. of North America Demand Note, 5.444%, due 1/2/96	3,559	3,559		
2,987	Household Finance Corporation, 5.75%, due 1/5/96	2,987	2,987		
2,253	Chevron Oil Finance Company, 5.65%, due 1/12/96	2,253	2,253		
2,671	Chevron Oil Finance Company, 5.72%, due 1/12/96	2,671	2,671		
1,774	General Electric Capital Corporation, 5.74%, due 1/19/96	1,774	1,774		
3,000	Chevron Oil Finance Company, 5.65%, due 1/19/96	3,000	3,000		
3,200	GMAC Corporation, 5.69%, due 1/26/96	3,200	3,200		
3,500	Ford Motor Credit Company, 5.60%, due 2/2/96	3,500	3,500		
	Total Short-term Investments -- 6.3%	22,944	22,944		
	TOTAL INVESTMENTS -- 100.7%	\$270,957	365,478		
	LIABILITIES, PLUS CASH AND OTHER ASSETS -- (.7)%		(2,442)		
	NET ASSETS -- 100.0%		\$363,036		

</TABLE>

* Non-income producing securities

ADR = American Depository Receipt

See accompanying Notes to Financial Statements.

8

February 2, 1996

Dear Shareholders:

With the United States 1995's second best performing world stock market (only Switzerland was up more), United States investors in international portfolios were modestly rewarded. The EAFE Index returned 11.6% and the Lipper International Index returned 9.3% as the large Japanese market was essentially flat and the emerging markets actually declined nearly 10%. Offsetting these drags were gains of nearly 10% in non-Japan Far East and about 15-18% in Europe/UK. Clearly, the major investment action in 1995 was here in the U.S.

The International Growth Fund lagged behind both international indices with a 7.2% return for the year. We emphasize investment in growth stocks which results in an overweight position in somewhat smaller companies. As shown in the table below, larger cap stocks outperformed in all major geographic markets in 1995. History clearly demonstrates that this is quite unusual and indeed recent evidence shows that smaller companies are starting to again perform better in some markets.

PERFORMANCE OF SMALL CAP VS LARGE CAP*

<TABLE>
<CAPTION>

REPRESENTATIVE INDICES	1994		1995				YEAR
	Q3	Q4	Q1	Q2	Q3	Q4	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Morgan Stanley Capital International UK (large)*.....	5.4%	0.5%	5.6%	3.0%	5.4%	2.3%	17.2%
Financial Times Stock Exchange Small Cap UK, ex Investment Trust (small).....	3.7	-4.7	2.9	4.5	7.2	-3.7	10.9
Morgan Stanley Capital International EUROPE, ex UK (large).....	2.8	0.3	5.5	7.1	2.7	3.1	19.7
James Capel Small Cap EUROPE, ex UK (small).....	2.3	-1.9	2.6	5.3	-1.2	-4.1	2.3
Morgan Stanley Capital International JAPAN (large).....	-5.5	-1.5	-2.3	-6.5	4.3	4.9	0.0
James Capel Small Cap JAPAN (small)...	-8.1	-2.4	-6.8	-10.7	0.4	7.2	-10.3

</TABLE>

* US Dollar adjusted Capital Change

Looking ahead to 1996, we can summarize our investment outlook by the following:

OVERVIEW

- Economic growth remains below trend in the industrial world
- Short-term rates have further to fall in the United States and Continental Europe
- World growth will accelerate in 1997
- The dollar should strengthen over the year but may be vulnerable short term

JAPAN

- Economic growth is picking up
- Monetary policy may be tightened earlier than expected
- The equity market has seen the best of its rally

EUROPE

- Growth is slowing and may move to negative levels in the first half of 1996
- Inflation remains very low in core ERM countries
- Short-term interest rates have further to fall
- Overweight classic growth and interest rate sensitive stocks

UK

- The economy is set to grow around 2.5% in 1996
- Headline inflation will fall to 1-2% mid-year
- Long gilt yields should trade in a range of 7-8%
- Growth may be uncomfortably strong by 1997

EMERGING MARKETS

- Economic performance is still deteriorating in some Asian markets
- Latin American growth should accelerate in 1996
- East European markets look set for good performance in 1996
- Represent good value at current levels and should outperform in 1996

The portfolio remains overweighted in Japan, core Europe and emerging markets. In Japan, we are seeing the beginning of better performance among the medium and smaller sized stocks and we expect this to continue as the economic environment improves in 1996. We see some risk of Yen weakness, after an unprecedented period of strength, and have continued to hedge approximately one third of our exposure. In core Europe, we see continued benefits from declining interest rates led by Germany. Smaller company shares throughout Europe have been in a prolonged bear market and some outstanding values are available; however, it will require greater optimism on European growth prospects before they start to outperform. Finally, we see interest returning to many of the emerging markets as valuations have become more compelling given recent years declines.

Norbert W. Truderung
Senior Vice President
William Blair Mutual Funds, Inc.

ILLUSTRATION OF AN ASSUMED INVESTMENT OF \$10,000 WITH
REINVESTMENT OF CAPITAL GAIN DISTRIBUTIONS AND INCOME DIVIDENDS

<TABLE>

<CAPTION>

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	INT'L GROWTH FUND	LIPPER INT'L INDEX
<S>	<C>	<C>
10/92	10000	10000
12/92	10130	09875
6/93	11390	11310
12/93	13534	13744
6/94	13985	13718
12/94	13528	13622
6/95	13332	13962
12/95	14505	14886

</TABLE>

WILLIAM BLAIR MUTUAL FUNDS, INC.

INTERNATIONAL GROWTH FUND

<TABLE>

<CAPTION>

Portfolio of Investments

December 31, 1995

Shares	(all amounts in thousands)	Cost	Value
<S>	<C> <C>	<C>	<C>
COMMON STOCKS -- EUROPE -- 43.8%			
AUSTRIA -- .8%			
10	Flughafen Wien AG (Vienna Airport)	\$ 484	\$ 675
BELGIUM -- .8%			
3	Kredietbank (Bank)	607	684
DENMARK -- .5%			
4	Novo Nordisk AS (Pharmaceutical)	427	479
FINLAND -- .5%			
11	Nokia (AB) OY (Telecommunications equipment)	732	432
FRANCE -- 6.6%			
4	Air Liquide (Industrial gases)	577	662
7	Alcatel-Alsthom SA (Telecommunication/ transportation equipment)	710	604
8	Banque Nationale De Paris (Bank)	392	361
4	Cie De St. Gobain (Building materials)	416	382
6	Crometal (Metal, plastic and construction)	509	398
9	Gascogne (Packaging paper and printing)	794	793
7	Interbail (Societe Financiere) (Property leasing and rental)	592	377
12	* SGS Thomson Micro (Electronic semiconductors)	563	459
4	Societe Bic (Consumer goods)	400	437
7	Societe Generale (Bank)	750	865
2	Sodexho (Contract catering)	305	588
		6,008	5,926
GERMANY -- 5.9%			
3	Bayer AG (Chemicals)	696	792
3	Durr Beteil AG (Capital goods and spray paint machinery)	894	749
5	* Ex Cello O Holdings AG (Machine tools)	848	537
1	Linde AG (Engineering)	709	729
2	Mannesmann AG (Engineering-general)	364	509
0.11	Munchener Ruckvers AG (Reinsurance)	182	244
6	Praktiker Bau Und Heimninerker AG (Retailing)	208	191
2	Siemens AG (Electrical engineering)	666	821
2	Simona AG (Plastics processing)	302	305
3	* Varta AG (Batteries)	530	479
		5,399	5,356

</TABLE>

12

<TABLE>

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Shares	(all amounts in thousands)	Cost	Value
<S>	<C>	<C>	<C>
ITALY -- 1.7%			
404	BCA Fideuram SPA (Fund management)	\$ 483	\$ 467
150	La Rinascente (Retailing)	393	390
400	Telecom Italia Mobile (Mobile telephones)	513	704
		1,389	1,561
LUXEMBOURG -- .7%			
20	Millicom International Cellular S A (Communications)	521	610
NETHERLANDS -- 4.1%			
9	Crown V Gelder G B (Specialists -- paper products)	707	721
17	* Frans Maas Group (Transport services)	502	566
6	Heineken NV (Brewer)	961	1,064
9	Kon Ten Cate NV (Chemicals)	454	380
20	Koninklijke Van Ommeren CVA (Specialty chemicals)	539	623
8	Philips Electronics NV (Consumer electronics)	391	289
		3,554	3,643
PORTUGAL -- .1%			
5	Filmes Lusomundo (Media)	61	53
SPAIN -- 2.0%			
20	Aguas De Barcelona (Water utility)	526	597
25	Centros Com Pryca (Supermarkets)	501	524
15	Hidroel Cantabrico (Electric utility)	483	519
10	Unipapel S A (Office stationery)	268	188
		1,778	1,828
SWEDEN -- 2.9%			
7	Autoliv AB (Airbag manufacturers)	392	409
15	Astra AB (Pharmaceutical)	502	599
28	Ericcson (LM) Telefon (Telecommunication equipment)	539	538
50	Munksjo AB (Pulp and paper)	480	328
55	Sparbanken Sverige (Bank)	483	700
		2,396	2,574
SWITZERLAND -- 5.3%			
0.25	Baloise Holdings (Insurance)	577	520
0.25	Bobst AG (Printing machines)	377	390
10	CS Holdings (Banking)	1,011	1,025
0.80	Nestle SA (Food)	820	885
0.13	Roche Holdings AG (Pharmaceuticals)	789	989
1	Sandoz AG (Pharmaceuticals)	739	915
		4,313	4,724

</TABLE>

13

<TABLE>

<CAPTION>

Shares	(all amounts in thousands)	Cost	Value
<S>	<C>	<C>	<C>
TURKEY -- .1%			
1,546	Sifas (Textiles)	\$ 250	\$ 83
UNITED KINGDOM -- 11.8%			
19	Abacus Group (Distributors)	83	82
125	Bank of Scotland (Bank)	358	546
175	Bullough (Engineering)	391	277
125	Chubb Security (Securities firm)	618	618
75	DFS Furniture Company (Furniture manufacturer and retailer)	315	460
19	Domestic & General Group (Insurance)	386	449

85	Eurotherm (Instruments and controls)	404	722
125	First Leisure Corporation (Entertainment)	599	740
75	Frost Group (Retailers)	247	224
233	Halma (Industrial safety and environmental equipment)	543	634
100	Hays (Bulk distribution, personnel services)	435	584
175	Hogg Robinson (Travel, transport and financial services)	572	620
150	Kwik Fit Holdings (Distributors)	422	396
100	London Forfaiting (Commercial asset-based finance)	235	340
20	Mercury Assets Management Group (Banks/Merchant)	331	276
35	RTZ Corp. (Mining and finance)	381	509
100	S I G (Building material distributor)	371	300
65	Shell Transport & Trading (Oil-Integrated)	753	860
100	Standard Chartered (Retail banks)	621	851
35	Tate & Lyle (Food Producers)	247	257
90	Vero Group (Electronics)	387	380
75	Watmoughs Holdings (Printer)	460	530
		-----	-----
		9,159	10,655
		-----	-----

COMMON STOCKS -- ASIA -- 41.5%

AUSTRALIA -- 2.5%

45	Broken Hill Proprietary (Mining)	620	635
200	John Fairfax (Newspaper publishing)	346	416
300	Stanilite Pacific (Manufacturer of emergency lighting systems)	397	137
125	Stanilite Pacific Ltd (Electronic/communication equipment)	150	57
160	Western Mining Corporation (Mines)	971	1,027
		-----	-----
		2,484	2,272
		-----	-----

JAPAN -- 32.0%

77	Anritsu Corporation (Electrical machinery)	888	835
75	Asahi Tec Corporation (Automobile parts)	702	498
41	Bank of Tokyo (Bank)	699	719
0.10	DDI Corporation (Cellular telecom service provider)	573	775

</TABLE>

14

<TABLE>

<CAPTION>

Shares	(all amounts in thousands)	Cost	Value
-----		-----	-----
<S>	<C>	<C>	<C>
25	Enix Corporation (Entertainment software)	\$ 842	\$ 953
60	Exedy Corporation (Automobile parts)	993	953
15	Fuji Machine Manufacturing (Automated assembly machinery)	481	538
50	Hitachi Metals (Specialty steel maker)	611	625
13	Ito Yokado Company (Food retailer)	552	801
60	Jaccs Company (Consumer finance)	619	622
93	Kamigumi Company (Harbor transport & equipment)	900	893
20	Kato Denki Company (Electrical retailer)	451	519
7	Keyence Corporation (Electronics)	574	807
10	Melco Incorporated (Electronics)	353	527
47	Mitsubishi Trust & Banking (Banking)	749	783
70	Mitsui Fudosan Company (Real estate)	878	861
55	Namco (Commercial use videogame hardware)	1,473	1,832
68	Neturen Company (Metal products)	551	539
50	New Oji Paper Company (Pulp and paper)	461	452
9	Nichiei Company (Finance company)	617	671
90	Nikko Securities (Securities firm)	839	1,159
300	* NKK Corporation (Steel producer)	790	808
90	NTN Corporation (Bearings producer)	598	601
70	Obayashi Corporation (Construction)	558	556
87	Ricoh Company (Color copier manufacturer)	885	952
30	Rinnai Corporation (Metal products)	680	700
8	Riso Kagaku Corporation (Printing machine producer)	660	675
20	Rohm & Co. (Electronics)	595	1,129
21	Ryosan Electro Corporation (Semiconductors/workstations)	465	578
10	SMC Corporation (Machinery)	573	723
33	Santen Pharm Company (Ophthalmic pharmaceuticals)	740	748
34	Sanwa Bank (Bank)	655	692
14	Secom Company (Services)	847	974
23	Sho Bond Corporation (Construction)	763	786
30	Sumitomo Bank (Bank)	557	636
55	Sumitomo Trust & Banking (Bank)	786	778
60	Topre Corporation (Automobile pressed parts)	525	477
18	Tostem Corporation (Metal products)	648	598
		-----	-----
		26,131	28,773
		-----	-----

HONG KONG -- 4.6%				
100		China Light & Power (Electric utility)	448	460
59		HSBC Holdings (Bank)	638	896
1,480		Inner Mongolia Erdos Cashmere (Wool producer)	701	555
750		National Mutual Asia (Finance)	471	679
70		Sun Hung Kai Properties (Real estate management)	419	568

</TABLE>

15

<TABLE>

<CAPTION>

Shares			(all amounts in thousands)	
			Cost	Value
<S>	<C>	<C>	<C>	<C>
65		Swire Pacific (Airline, general trading and real estate conglomerate)	\$ 415	\$ 504
1,960		Yizheng Chemical Fibre Company (Chemicals)	555	441
			3,647	4,103
SINGAPORE -- 2.4%				
45		City Developments (Real estate company)	275	328
50		Fraser & Neave (Diversified conglomerate)	468	639
3		Fraser & Neave, warrants (expire 5/27/98)	3	20
80		Keppel Corp. (Diversified conglomerate)	490	713
199		Singapore Technologies Industries (Infrastructure/industrial development projects)	304	450
			1,540	2,150
COMMON STOCKS -- EMERGING MARKETS -- 9.8%				
ARGENTINA -- 1.2%				
43		Irsa Inversiones Y Representaciones GDR (Property)	878	1,094
BRAZIL -- 1.6%				
40	(a)	Rhodia Ster S A (Packaging) (Rule 144A)	579	410
16		Telecomunicacoes Brasileira, ADR (Telecommunication)	532	741
40	(a)	Usinas Siderurgicas De Minas Gerais S.A., ADR (Rule 144A) (Steel)	623	325
			1,734	1,476
INDONESIA -- 1.0%				
96	(b)	Astra International (Assembler/distributor of automobiles/motorcycles)	139	199
90	(b)	Indosat (Telecommunications service provider)	346	335
139	(b)	Mulia Industrindo (Glass and ceramic manufacturer)	235	391
			720	925
KOREA -- .4%				
15		Korea Electric Power Corporation ADR (Electric utility)	315	401
MALAYSIA -- 1.4%				
58		Resorts World Berhad (Manages hotel and gaming operations)	244	311
108		Leader Universal Holdings (Cable manufacturer)	305	247
105		YTL Corporation (Holding company-property/power generating)	354	662
			903	1,220

</TABLE>

16

<TABLE>

<CAPTION>

Shares or Amount			(all amounts in thousands)	
			Cost	Value
<S>	<C>	<C>	<C>	<C>
PERU -- 1.2%				
505		Telefonica Del Peru SA CPT 'B' Shares (Telephone company)	\$ 878	\$ 1,082
SOUTH AFRICA -- 1.0%				
115		Free State Consolidated Gold Mines (Mining)	1,249	860

THAILAND -- 2.0%			
0.05	Formosa Fund (Mutual fund)	351	380
200	(b) Industrial Finance Corporation of Thailand (Bank)	373	679
18	(b) Regional Continental Line (Transportation containers)	207	225
69	Thai Farmers Bank (Bank)	236	471
		-----	-----
		1,167	1,755
		-----	-----
TOTAL COMMON STOCKS -- 95.1%		78,724	85,394
		-----	-----
CONVERTIBLE BONDS -- 1.9%			
\$ 200	Tata Iron & Steel Company, 2.25%		
	due 4/1/99 (Construction materials)	200	178
550	U Ming Marine Holdings, 1.5%, due 2/7/01 (Shipping)	558	491
500	United Micro Electric, 1.25%, due 6/8/04 (Technology)	855	666
35,000Y	Sankyo Frontier Company, 3.00% due 9/29/00 (Licensing)	459	343
		-----	-----
TOTAL CONVERTIBLE BONDS		2,072	1,678
		-----	-----
SHORT-TERM INVESTMENTS -- 2.8%			
\$2,505	State Street Bank Euro-Dollar Time Deposit,		
	4.75%, due 1/2/96	2,505	2,505
		-----	-----
TOTAL INVESTMENTS -- 99.8%		\$83,301	89,577
		=====	
CASH AND OTHER ASSETS, LESS LIABILITIES -- .2%			185

NET ASSETS -- 100.0%			\$89,762
			=====

</TABLE>

* Non-income producing securities

ADR = American Depository Receipt

(a) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These may be resold in transactions exempt from registration, normally to qualified institutional buyers. At December 31, 1995, the value of these securities was 0.8% of net assets.

(b) Foreign registered securities (Alien Market).

At December 31, 1995 the Fund's Portfolio of Investments includes the following categories: Capital Equipment -- 23%; Services -- 23%; Finance -- 22%; Materials -- 15%; Consumer Goods -- 11%; Energy -- 4%; and Multi-Industry -- 2%.

See accompanying Notes to Financial Statements.

17

February 2, 1996

Dear Shareholders:

Unlike the prior year, 1995 was one that bond investors will savor. Double digit returns were the norm for all but the shortest maturity issues. Economic growth slowed during the year and inflation remained subdued. The Federal Reserve Board responded by twice lowering short-term interest rates. This steadily declining interest rate environment led to a 14.4% return with dividends reinvested for the Income Fund. While this return exceeded the 10.9% return of our relevant Lipper peer group, it trailed the 15.3% return of the Lehman Intermediate Government/Corporate Bond Index.

We maintained our modestly defensive position throughout the second half of 1995 and we expect to continue to do so as we move into 1996. The returns generated within the bond market last year represent one of the best single-year performances in bond market history. A great year like 1995 is generally not followed by another one and this simple recognition is the main reason for maintaining our position. We continue to emphasize U.S. Treasury notes and more conservatively structured mortgage-backed bonds as there still does not seem to be much value in the corporate bond area.

Assets remained very stable in the \$150 million range. Additionally, we changed the monthly dividend on two occasions this year. This basically reflected the volatility of interest rates that has developed more recently. As a result, we are modifying our dividend policy very slightly. We will determine a dividend level at the beginning of each year and will review that level every quarter to see if an adjustment is necessary. Our philosophy continues to be one of paying out only income earned and trying to avoid any return of principal. We look forward to serving your fixed-income needs in 1996.

ILLUSTRATION OF AN ASSUMED INVESTMENT OF \$10,000 WITH
REINVESTMENT OF CAPITAL GAIN DISTRIBUTIONS AND INCOME DIVIDENDS

<TABLE>
<CAPTION>

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	INCOME FUND	LEHMAN IN- TERMED. GOVT/CORP INDEX
<S>	<C>	<C>
9/90	10000	10000
12/90	10291	10410
6/91	10781	10862
12/91	11986	11932
6/92	12390	12292
12/92	12845	12788
6/93	13565	13582
12/93	13849	13912
6/94	13555	13548
12/94	13746	13643
6/95	14935	14953
12/95	15722	15735

</TABLE>

WILLIAM BLAIR MUTUAL FUNDS, INC.
INCOME FUND

Portfolio of Investments December 31, 1995

<TABLE>
<CAPTION>

Principal Amount	Issue	Value
<S>	<C>	<C>
(all amounts in thousands)		
U.S. GOVERNMENT AND U.S. GOVERNMENT AGENCY GUARANTEED OBLIGATIONS -- 66.5%		
U.S. TREASURY -- 26.2%		
\$ 14,700	U.S. Treasury Note 7.50%, due 11/15/01	\$ 16,191
10,322	U.S. Treasury Note 5.75%, due 8/15/03	10,446
10,750	U.S. Treasury Note 7.25%, due 5/15/04	11,929
-----		-----
35,772	Total U.S. Treasury Obligations	38,566
-----		-----
U.S. GOVERNMENT GUARANTEED OBLIGATIONS -- 18.5%		
SMALL BUSINESS ADMINISTRATION -- 8.9%		
--	Receipt for Multiple Originator Fees, #3, 0.786%, due 11/08/08 (Interest only) WAC	2,225
378	Loan #100023, 9.375%, due 11/25/14	397
--	Receipt for Multiple Originator Fees, #146, 3.021%, due 6/03/15 (Interest only) WAC	1,858
--	Receipt for Multiple Originator Fees, #156, 3.323%, due 7/20/15 (Interest only) WAC	1,904
--	Receipt for Multiple Originator Fees, #215, 3.311%, due 9/03/15 (Interest only) WAC	4,506
--	Receipt for Multiple Originator Fees, #149, 3.082%, due 10/01/15 (Interest only) WAC	2,308
-----		-----
378	Total Small Business Administration Obligations	13,198
-----		-----
U.S. DEPARTMENT OF VETERANS AFFAIRS -- 4.9%		
2,060	Mortgage Trust 1992-1, Tranche 2-B, 7.75%, due 9/15/10	2,098
5,000	Mortgage Trust 1992-2, Tranche 2-D, 7.00%, due 9/15/15	5,096
-----		-----

7,060	Total U.S. Department of Veteran Affairs	7,194
-----	Guaranteed Pass-Through Certificates	-----

</TABLE>

20

<TABLE>

<CAPTION>

Principal

Amount	Issue	Value
-----	-----	-----
<S>	<C>	<C>
	(all amounts in thousands)	
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION -- 3.5%		
\$ 26	12.50%, due 4/15/14	\$ 30
54	13.00%, due 11/15/14	60
2,277	8.50%, due 11/15/21	2,401
1,063	8.50%, due 12/15/21	1,120
1,501	8.50%, due 1/15/22	1,583
-----		-----
4,921	Total Government National Mortgage Association Obligations	5,194
-----		-----

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION II -- 0.8%

28	12.00%, due 2/20/20	30
21	12.50%, due 2/20/15	24
777	11.00%, due 3/20/16	861
24	10.50%, due 6/20/19	26
97	10.50%, due 8/20/20	107
120	10.50%, due 9/20/20	132
-----		-----
1,067	Total Government National Mortgage Association II Obligations	1,180
-----		-----

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MOBILE HOME -- 0.4%

114	9.75%, due 3/15/98	118
54	9.75%, due 1/15/99	57
427	9.50%, due 12/15/10	456
-----		-----
595	Total Government National Mortgage Association Mobile Home Obligations	631
-----		-----

U.S. GOVERNMENT AGENCY GUARANTEED OBLIGATIONS -- 21.8%

FEDERAL HOME LOAN MORTGAGE CORP. (FHLMC) -- 14.7%

403	#1475, Tranche SC, 8.107% FR, due 2/15/08	391
1,092	#1693, Tranche S, 5.225%, due 9/15/08	931
2,214	#1214, Tranche EB, 9.095% FR, due 2/15/15	2,220
2,500	#77, Tranche F, 8.500%, due 6/15/17	2,514
4,395	#845059, Debenture, 7.460% FR, due 5/01/18	4,507
2,000	#1289, Tranche PK, 7.500%, due 5/15/18	2,028
4,846	#1081, Tranche IC, 6.500%, due 12/15/19	4,847
676	#1077, Tranche G, 7.500%, due 5/15/21	678
2,818	#C00137, Debenture, 9.000%, due 5/01/22	2,990
603	#1492, Tranche SE, 10.133%, due 3/15/23	552
-----		-----
21,547	Total FHLMC Collateralized Mortgage Obligations	21,658
-----		-----

</TABLE>

21

<TABLE>

<CAPTION>

Principal

Amount	Issue	Value
<S>	<C>	<C>
	(all amounts in thousands)	
FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) -- 7.1%		
\$ 2,900	1993-47, Tranche B, 6.650%, due 3/25/06	\$ 2,906
54	13.250%, due 8/01/14	54
4,584	7.623%, due 12/01/2018	4,713
282	1992-105, Tranche A, 7.000%, due 1/25/21	284
276	1991-141, Tranche SB, 12.170% FR, due 10/25/21	276
1,890	1992-200, Tranche SE, 11.500%, due 11/25/22	1,896
266	1993-19, Tranche SH, 11.234%, due 4/25/23	266
-----		-----
10,252	Total FNMA Collateralized Mortgage Obligations	10,395
-----		-----
81,592	Total U.S. Government and U.S. Government Agency Guaranteed Obligations	98,016
-----		-----

<CAPTION>		S&P Rating	
		(unaudited)	
<S>	<C>	<C>	<C>
COLLATERALIZED MORTGAGE OBLIGATIONS -- 20.9%			
3,255	Prudential Home Mortgage Securities Corp., 1992-45, Tranche A-8, 6.045%, due 1/25/00	AAA	3,158
1,600	Polk Co. HFA, 1991-1, Tranche A-2, 9.550%, due 1/15/11	AAA	1,708
11,503	Morgan Keegan Funding I, L.P., 8.000%, due 4/25/11	AA-	11,734
212	Clay Co. HFA, 1990, Tranche A-1, 9.500%, due 10/10/12	AAA	226
1,000	Mortgage Obligation Structured Trust, 1993-1, Tranche A-1, 6.350%, due 10/25/18	AAA	993
5,000	Prudential Home Mortgage Securities Corp., 1993-8, Tranche A-10, 7.350%, due 3/25/23	AAA	5,018
5,000	Prudential Home Mortgage Securities Corp., 1993-40, Tranche A-2, 6.500%, due 10/25/23	AAA	5,017
392	Residential Finance Corp., 1991-11, Tranche A-2, 10.000%, due 4/01/21	AA	393
1,219	Residential Finance Corp., 1991-11, Tranche A-2, 10.000%, due 4/01/21	AA	1,243
263	Resolution Trust Corp., 1991-3, Tranche A-2, 10.385%, due 8/25/21	AAA	274
1,052	Resolution Trust Corp., 1992-5, Tranche 5-C, 8.628%, due 1/25/26	AA	1,081
-----			-----
30,496	Total Collateralized Mortgage Obligations		30,845
-----			-----

<TABLE>		<CAPTION>	
Principal Amount	Issue	S&P Rating	Value
<S>	<C>	<C>	<C>
(all amounts in thousands)			
CORPORATE OBLIGATIONS -- 2.2%			
\$ 1,250	Sears, Roebuck Corp. Medium Term Note, 9.75%, due 3/21/00	BBB	\$ 1,424
1,500	Household Finance Corp. Medium Term Note, 10.38%, due 12/15/00	A	1,778
-----			-----
2,750	Total Corporate Obligations		3,202
-----			-----
114,838	TOTAL LONG-TERM INVESTMENTS -- 89.6%		132,063
-----			-----
SHORT-TERM INVESTMENTS -- 8.8%			
1,573	Associates Corp. of North America Demand Note, 5.444%, due 1/2/96	A-1+	1,573
3,200	General Motors Acceptance Corp., 5.730%,		

3,000	due 2/2/96 IBM Credit Corporation, 5.700%, due 2/2/96	A-2	3,200
2,226	General Motors Acceptance Corp., 5.720%, 2/16/96	A-1	3,000
3,000	American Express Credit Corp., 5.640%, due 2/16/96	A-2	2,226
		A-1	3,000
-----			-----
12,999	TOTAL SHORT-TERM INVESTMENTS -- 8.8%		12,999
-----			-----
\$127,837	TOTAL INVESTMENTS (COST \$142,123) -- 98.4%		145,062
=====			=====
	CASH AND OTHER ASSETS, LESS LIABILITIES -- 1.6%		2,308
	NET ASSETS -- 100.0%		\$147,370
			=====

</TABLE>

WAC = Weighted Average Coupon
FR = Floating Rate

See accompanying Notes to Financial Statements.

23

February 2, 1996

Dear Shareholders:

The discussion of a flat tax and the possible elimination of taxation on all interest and dividends plagued the municipal market for most of 1995. The ratio of tax-exempt yields to taxable yields rose to the 80% to 90% level early in the year and then remained there as the various tax proposals were discussed. The ongoing budget discussions have recently taken precedence so a consensus approach to tax reform has not yet developed. It still appears to us that some reduction in tax rates is possible but that something more severe, like eliminating deductions and not grandfathering current municipal bond issues is unlikely.

The Limited Term Tax-Free Fund had a return of 10.0% with dividends reinvested for the year, which exceeded the 9.0% return of the Lipper Municipal Short-Term Index but trailed the 10.6% return of the Merrill Lynch Intermediate Municipal Bond Index. We continued to maintain our moderately defensive position throughout the second half of the year. While returns in the tax-exempt market trailed those in the taxable market, the absolute returns were still at the high end of the historical range. We therefore feel more comfortable recognizing this fact and keeping a little more cash equivalents than usual. Assets continue to grow slowly with the total reaching almost \$20 million by year end.

Bentley M. Myer
Senior Vice President
Limited Term Tax-Free Fund Portfolio
Manager

ILLUSTRATION OF AN ASSUMED INVESTMENT OF \$10,000 WITH
REINVESTMENT OF CAPITAL GAIN DISTRIBUTIONS AND INCOME DIVIDENDS

<TABLE>
<CAPTION>

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	LIMITED TERM	MERRILL LYNCH
	TAX- FREE FUND	INTERMEDIATE MUN. BOND INDEX
<S>	<C>	<C>
1/94	10000	10000
3/94	9649	9333
6/94	9760	9307
9/94	9872	9387
12/94	9840	9290
3/95	10156	09922
6/95	10401	10131
9/95	10627	10409
12/95	10820	10932

</TABLE>

24

WILLIAM BLAIR MUTUAL FUNDS, INC.
LIMITED TERM TAX-FREE FUND

Portfolio of Investments

December 31, 1995

<TABLE>
<CAPTION>
Principal Amount

Principal Amount	Issue	Value
<S>	<C>	<C>
	(all amounts in thousands)	
REVENUE BONDS -- 47.2%		
\$ 250	State of Illinois Toll Highway Authority 6.550%, 1/1/96	\$ 250
400	Atlanta, Georgia Water and Sewer Revenue 6.000%, 1/1/96	400
450	South Dakota Housing Development Authority 4.500%, 5/1/96	454
400	DuPage County, Illinois Water Commission 6.000%, 5/1/97	411
500	Ball State University, Indiana Student Revenue 4.900%, 7/1/97	508
235	Nevada Housing Division -- Single Family 4.750%, 10/1/97	234
210	Nevada Housing Division -- Single Family 4.950%, 4/1/98	208
500	New Jersey State Transportation Authority 4.500%, 6/15/00	504
500	Massachusetts Municipal Wholesale Electric Commission 4.100%, 7/1/00	496
250	Chicago, Illinois Waterworks Revenue 6.750%, 11/1/00	259
700	Indiana Municipal Power Agency 5.125%, 1/1/01	725
440	New Hampshire Higher Education and Health, University of New Hampshire, 5.600%, 7/1/02	468
500	Tippecanoe County, Indiana School Building Corporation 5.500%, 7/15/02	528
300	Virginia Public School Authority 6.000%, 8/1/02	327
500	Michigan State Building Authority Series 1 5.100%, 10/1/02	513
500	Indiana Bond Bank Revenue 5.375%, 2/1/03	511
500	Philadelphia, Pennsylvania Gas Works Revenue 4.600%, 8/1/03	503
500	Wenatchee, Washington Water and Sewer Revenue 4.700%, 12/1/03	496

</TABLE>

25

<TABLE>
<CAPTION>
Principal Amount

Principal Amount	Issue	Value
<S>	<C>	<C>
	(all amounts in thousands)	
\$ 260	Princeton, Indiana Pollution Control Revenue 5.750%, 12/15/03	\$ 262
500	Northern Cook County, Illinois Solid Waste Agency Contract Revenue, 6.300%, 5/1/04	552
500	Chicago, Illinois Motor Fuel Tax Revenue 5.125%, 1/1/06	512
8,895	Total Revenue Bonds	9,121
GENERAL OBLIGATION BONDS -- 32.4%		
125	Arlington, Texas 6.800%, 5/1/96	126
300	State of Texas 6.700%, 12/1/96	308
250	Spokane County, Washington 6.650%, 9/1/98	255
250	West Allis Milwaukee, Wisconsin School District 6.300%, 4/1/00	258
530	Wisconsin State Veterans Housing Authority 5.000%, 5/1/00	547
500	Cook County, Illinois	

	5.500%, 11/15/01	528
250	State of New Jersey	
	5.400%, 2/15/03	265
500	Kane County, Illinois School District #304	
	5.900%, 6/1/03	542
500	State of Washington	
	5.300%, 9/1/03	526
240	New Richmond, Wisconsin School District	
	4.800%, 10/1/03	244
500	Newport News, Virginia	
	4.700%, 1/1/04	505
500	Florida State Board of Education Series A	
	5.000%, 6/1/04	517
515	Flat Rock, Michigan Community School District	
	5.250%, 5/1/05	534
500	Clark County, Nevada School District	
	7.000%, 6/1/05	567
500	Naperville, Illinois	
	6.000%, 12/1/05	544
-----		-----
5,960	Total General Obligation Bonds	6,266
-----		-----

</TABLE>

26

<TABLE>		
<CAPTION>		
Principal Amount	Issue	Value
-----	-----	-----
<S>	<C>	<C>
	(all amounts in thousands)	
CASH EQUIVALENT BONDS* -- 19.2%		
\$ 500	State of Massachusetts	
	5.900%, 12/1/97	\$ 500
400	Louisiana State Recovery District Sales Tax Revenue	
	6.000%, 7/1/98	400
800	Southern California Edison Pollution Control Authority	
	5.400%, 2/28/08	800
100	Lone Star Texas Airport Improvement Authority	
	6.000%, 12/1/14	100
500	Delaware County, Pennsylvania	
	5.900%, 12/1/15	500
300	City of New York, New York	
	5.000%, 10/1/21	300
100	City of New York, New York	
	5.000%, 10/1/22	100
100	Columbia, Alabama Pollution Control Revenue	
	6.000%, 10/1/22	100
900	Burke County, Georgia Pollution Control Revenue	
	6.000%, 7/1/24	900
-----		-----
3,700	Total Cash Equivalent Bonds	3,700
-----		-----
\$18,555	TOTAL INVESTMENTS (COST \$18,793) -- 98.8%	19,087
=====		=====
	CASH AND OTHER ASSETS, LESS LIABILITIES -- 1.2%	233

	NET ASSETS -- 100.0%	\$19,320
		=====

</TABLE>

 * These securities have maturities of more than one year but have variable rates and demand features which qualify them as short-term securities. The rate disclosed is that currently in effect. This rate changes periodically based on market conditions.

At December 31, 1995 the Fund's Portfolio of Investments includes the following categories: Education -- 23%; Water and Sewer -- 16%; State Government -- 13%; Pollution Control -- 11%; Housing -- 10%; Utilities -- 9%; County Government -- 7%; City Government -- 6%; State Transit -- 4%; and Airport -- 1%.

See accompanying Notes to Financial Statements.

27

February 2, 1996

Dear Shareholders:

The story in the short end of the bond market in 1995 was the lowering of interest rates by the Federal Reserve Board. Their initial move took place in July and they responded again in December. Current levels of interest rates are implying an additional 50 to 100 basis point downward move in short-term rates. We do not agree with this consensus as it does not appear that current economic conditions warrant such a big adjustment.

With this decline in short-term rates, we have been reducing our average maturity. We lowered the average to about 40 days at mid-year and it is currently about 32 days. We are at the lower end of our normal range and we expect to stay here unless economic conditions change. If the economy begins to show further signs of more significant weakness, we may extend in expectation of more aggressive moves by the Fed to lower rates.

The return of the Ready Reserves Fund for the year was 5.45%, which exceeded the 5.38% return of our peer group of S&P rated AAA money market funds. Assets grew quite a bit during the year and now exceed \$700 million. With our yield still in excess of 5%, we feel that we are maintaining a competitive return.

Bentley M. Myer
Senior Vice President
Ready Reserves Fund Portfolio Manager

28

WILLIAM BLAIR MUTUAL FUNDS, INC.
READY RESERVES FUND

<TABLE>
<CAPTION>
Portfolio of Investments

December 31, 1995

Principal Amount	Issue	Interest Rate	Maturity	Amortized Cost
<S>	<C>	<C>	<C>	<C>
(All amounts in thousands)				
U.S. GOVERNMENT AGENCY GUARANTEED -- 3.9%				
\$ 3,033	Agency for International Development VRN -- Peru	6.060%	2/01/96	\$ 3,033
8,000	Agency for International Development VRN -- Zimbabwe	6.106%	1/01/96	8,000
6,009	National Oceanic and Atmospheric Administration VRN	6.258%	1/01/96	6,009
1,103	National Oceanic and Atmospheric Administration VRN	6.288%	1/01/96	1,103
9,000	Student Loan Marketing Association VRN	5.475%	1/02/96	9,000
-----				-----
27,145				27,145
DEMAND NOTE -- 0.2%				
1,739	Associates Corp. of North America Demand Note VRN	5.444%	1/02/96	1,739
-----				-----
COMMERCIAL PAPER -- 98.1%				
FINANCE -- 20.8%				
8,317	American Express Credit Corporation	5.650%	1/16/96	8,297
6,644	American Express Credit Corporation	5.690%	1/17/96	6,627
4,000	Associates Corporation of North America	5.670%	1/19/96	3,989
6,178	Associates Corporation of North America	5.650%	2/16/96	6,133
4,137	Associates Corporation of North America	5.670%	2/21/96	4,104
5,160	Associates Corporation of North America	5.450%	3/26/96	5,094
3,000	Avco Financial Services, Incorporated	5.700%	1/22/96	2,990
9,956	Avco Financial Services, Incorporated	5.700%	1/22/96	9,923
6,000	Avco Financial Services, Incorporated	5.700%	1/25/96	5,977
3,361	Avco Financial Services, Incorporated	5.700%	1/31/96	3,345
4,000	Avco Financial Services, Incorporated	5.640%	2/26/96	3,965
4,541	Avco Financial Services, Incorporated	5.700%	2/26/96	4,501
4,205	CIT Group Holdings, Incorporated	5.650%	1/24/96	4,190
9,000	Household Finance Corporation	5.670%	2/07/96	8,947
5,000	John Deere Capital Corporation	5.680%	2/02/96	4,975
3,918	John Deere Capital Corporation	5.690%	2/09/96	3,894
6,000	John Deere Capital Corporation	5.690%	2/13/96	5,959
1,300	John Deere Capital Corporation	5.560%	2/23/96	1,289
6,287	Norwest Financial, Inc.	5.680%	1/25/96	6,263

</TABLE>

29

<TABLE> <CAPTION>				
Principal Amount	Issue	Interest Rate	Maturity	Amortized Cost
<S>	<C>	<C>	<C>	<C>
(All amounts in thousands)				
\$ 8,289	Norwest Financial, Inc.	5.720%	1/29/96	\$ 8,252
4,725	Norwest Financial, Inc.	5.650%	1/30/96	4,703
6,690	Norwest Financial, Inc.	5.630%	2/15/96	6,643
4,000	Norwest Financial, Inc.	5.650%	2/23/96	3,967
7,564	PHH Corporation	5.680%	1/18/96	7,544
8,000	PHH Corporation	5.680%	1/19/96	7,977
6,847	PHH Corporation	5.680%	1/19/96	6,828
-----				-----
147,119				146,376
-----				-----
INSURANCE -- 19.3%				
11,000	American General Finance Corporation	5.700%	1/09/96	10,986
4,200	American General Finance Corporation	5.700%	1/23/96	4,185
6,621	American General Finance Corporation	5.660%	2/08/96	6,582
6,000	American General Finance Corporation	5.560%	2/23/96	5,951
3,757	Aon Corporation	5.500%	2/16/96	3,731
2,563	Metlife Funding Incorporated	5.680%	1/18/96	2,556
5,000	Metlife Funding Incorporated	5.670%	2/01/96	4,976
8,000	Metlife Funding Incorporated	5.640%	2/02/96	7,960
4,820	Metlife Funding Incorporated	5.650%	2/02/96	4,796
4,000	Metlife Funding Incorporated	5.630%	2/05/96	3,978
2,850	Metlife Funding Incorporated	5.630%	2/06/96	2,834
4,310	Metlife Funding Incorporated	5.630%	2/07/96	4,285
3,500	Metlife Funding Incorporated	5.630%	2/21/96	3,472
4,068	Prudential Funding Corporation	5.640%	2/12/96	4,041
5,000	SAFECO Credit Corporation	5.680%	1/12/96	4,991
8,000	SAFECO Credit Corporation	5.680%	2/05/96	7,956
2,500	SAFECO Credit Corporation	5.650%	2/07/96	2,485
9,000	SAFECO Credit Corporation	5.650%	2/16/96	8,935
8,000	SAFECO Credit Corporation	5.630%	2/16/96	7,942
1,000	SAFECO Credit Corporation	5.630%	2/16/96	993
2,000	SAFECO Credit Corporation	5.400%	4/12/96	1,969
3,912	USAA Capital Corporation	5.670%	1/04/96	3,910
4,000	USAA Capital Corporation	5.670%	1/17/96	3,990
7,000	USAA Capital Corporation	5.680%	1/18/96	6,981
5,000	USAA Capital Corporation	5.660%	1/23/96	4,983
4,500	USAA Capital Corporation	5.680%	1/23/96	4,484
6,000	USAA Capital Corporation	5.650%	1/31/96	5,972
-----				-----
136,601				135,924
-----				-----
MANUFACTURING -- 15.1%				
8,923	Ford Motor Credit Company	5.700%	1/08/96	8,913
2,323	Ford Motor Credit Company	5.700%	1/19/96	2,317

</TABLE>

30

<TABLE> <CAPTION>				
Principal Amount	Issue	Interest Rate	Maturity	Amortized Cost
<S>	<C>	<C>	<C>	<C>
(All amounts in thousands)				
\$ 1,600	Ford Motor Credit Company	5.670%	1/25/96	\$ 1,594
3,942	Ford Motor Credit Company	5.700%	2/07/96	3,919
6,500	Ford Motor Credit Company	5.620%	2/13/96	6,456
5,157	Ford Motor Credit Company	5.690%	2/23/96	5,114
4,300	Ford Motor Credit Company	5.500%	3/01/96	4,261
3,112	Ford Motor Credit Company	5.460%	3/29/96	3,071
2,011	General Electric Capital Corporation	5.680%	1/12/96	2,008
7,000	General Electric Capital Corporation	5.690%	1/22/96	6,977
7,173	General Electric Capital Corporation	5.680%	1/26/96	7,145
3,500	General Electric Capital Corporation	5.690%	1/30/96	3,484
4,500	General Electric Capital Corporation	5.680%	2/01/96	4,478
4,364	General Electric Capital Corporation	5.640%	2/09/96	4,337
7,000	General Electric Capital Corporation	5.500%	2/26/96	6,940
5,569	General Electric Company	5.670%	2/05/96	5,538
5,000	Paccar Financial Corporation	5.670%	1/25/96	4,981
5,000	Paccar Financial Corporation	5.660%	2/08/96	4,970
5,000	Paccar Financial Corporation	5.660%	2/09/96	4,969
5,000	Paccar Financial Corporation	5.630%	2/28/96	4,955
5,000	Paccar Financial Corporation	5.600%	3/01/96	4,953

5,000	Paccar Financial Corporation	5.560%	3/14/96	4,944
-----				-----
106,974				106,324
-----				-----
UTILITIES	-- TELEPHONE -- 10.3%			
12,000	American Telephone & Telegraph Corporation	5.670%	1/26/96	11,953
3,512	American Telephone & Telegraph Corporation	5.650%	2/12/96	3,489
5,000	American Telephone & Telegraph Corporation	5.610%	2/14/96	4,966
2,750	American Telephone & Telegraph Corporation	5.600%	2/20/96	2,729
2,276	American Telephone & Telegraph Corporation	5.570%	2/23/96	2,257
5,178	American Telephone & Telegraph Corporation	5.590%	2/27/96	5,132
5,000	American Telephone & Telegraph Corporation	5.490%	3/12/96	4,946
2,605	Ameritech Capital Funding Corporation	5.700%	1/16/96	2,599
7,000	Ameritech Capital Funding Corporation	5.590%	2/12/96	6,954
8,000	Bellsouth Capital Funding Corporation	5.660%	1/11/96	7,987
7,000	Bellsouth Capital Funding Corporation	5.630%	1/29/96	6,969
4,880	GTE California, Incorporated	5.630%	2/22/96	4,840
5,000	GTE California, Incorporated	5.560%	3/29/96	4,932
3,000	Pacific Bell	5.650%	1/31/96	2,986
-----				-----
73,201				72,739
-----				-----
UTILITIES	-- ENERGY & GAS -- 6.1%			
5,010	Consolidated Natural Gas Company	5.620%	2/06/96	4,982
3,210	Consolidated Natural Gas Company	5.630%	2/07/96	3,192

</TABLE>

31

Principal Amount	Issue	Interest Rate	Maturity	Amortized Cost
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
	(All amounts in thousands)			
\$ 4,000	National Rural Utilities Cooperative Finance Corp.	5.690%	1/12/96	\$ 3,993
17,000	National Rural Utilities Cooperative Finance Corp.	5.680%	1/24/96	16,938
6,500	National Rural Utilities Cooperative Finance Corp.	5.650%	2/15/96	6,454
3,100	National Rural Utilities Cooperative Finance Corp.	5.620%	2/21/96	3,075
4,500	National Rural Utilities Cooperative Finance Corp.	5.550%	3/06/96	4,455
-----				-----
43,320				43,089
-----				-----
FOOD/BEVERAGE/TOBACCO	-- 4.9%			
10,000	Anheuser Busch Companies, Incorporated	5.650%	1/10/96	9,986
8,000	Brown - Forman Corporation	5.680%	1/04/96	7,996
3,473	Brown - Forman Corporation	5.700%	1/16/96	3,465
4,945	Campbell Soup Company	5.670%	2/06/96	4,917
8,000	Campbell Soup Company	5.670%	2/06/96	7,954
-----				-----
34,418				34,318
-----				-----
BROKERAGE	-- 4.8%			
5,200	Merrill Lynch & Company, Inc.	5.800%	1/03/96	5,198
9,000	Merrill Lynch & Company, Inc.	5.760%	1/18/96	8,975
3,500	Merrill Lynch & Company, Inc.	5.770%	1/26/96	3,486
7,000	Morgan Stanley Group, Incorporated	5.730%	1/05/96	6,996
3,000	Morgan Stanley Group, Incorporated	5.720%	1/10/96	2,996
6,432	Morgan Stanley Group, Incorporated	5.450%	3/22/96	6,353
-----				-----
34,132				34,004
-----				-----
CHEMICAL/FOREST	-- 3.6%			
4,305	DuPont (E.I.) de Nemours & Company	5.650%	1/19/96	4,293
4,773	DuPont (E.I.) de Nemours & Company	5.670%	1/26/96	4,754
8,265	Great Lakes Chemical Corporation	5.700%	1/22/96	8,238
8,000	Great Lakes Chemical Corporation	5.650%	2/01/96	7,961
-----				-----
25,343				25,246
-----				-----
DRUGS/HEALTH	-- 3.2%			
6,500	Schering Corporation	5.680%	1/16/96	6,485
8,000	Schering Corporation	5.560%	1/17/96	7,980
8,000	Warner - Lambert Company	5.580%	2/23/96	7,934
-----				-----
22,500				22,399

ENERGY -- 3.1%				
4,000	Chevron Oil Finance Company	5.680%	1/29/96	3,982
7,160	Chevron Oil Finance Company	5.700%	2/12/96	7,113

32

<TABLE> <CAPTION>				
Principal Amount	Issue	Interest Rate	Maturity	Amortized Cost
<C>	<S>	<C>	<C>	<C>
(All amounts in thousands)				
\$ 5,000	Chevron U.K. Investment PLC	5.700%	2/05/96	\$ 4,972
5,796	Mobil Finance Corporation (Australia)	5.640%	2/02/96	5,767
21,956				21,834

MEDIA/ENTERTAINMENT -- 3.0%				
6,000	Dun and Bradstreet Corporation	5.580%	1/16/96	5,986
8,000	Knight Ridder, Incorporated	5.640%	2/14/96	7,945
7,500	McGraw Hill, Incorporated	5.680%	2/02/96	7,462
21,500				21,393

ELECTRONIC/TECHNOLOGY -- 2.5%				
3,048	IBM Corporation	5.690%	2/01/96	3,033
3,798	IBM Corporation	5.700%	2/02/96	3,779
5,500	IBM Credit Corporation	5.700%	1/30/96	5,475
5,000	Pitney Bowes Credit Corporation	5.640%	1/31/96	4,976
17,346				17,263

MERCHANDISING -- 1.4%				
7,000	Winn - Dixie Stores, Incorporated	5.660%	2/08/96	6,958
2,716	Winn - Dixie Stores, Incorporated	5.650%	2/23/96	2,694
9,716				9,652
694,126	Total Commercial Paper			690,561

	PORTFOLIO WEIGHTED AVERAGE MATURITY	32 Days		
\$ 723,010	TOTAL INVESTMENTS -- 102.2%			719,445
=====				
	LIABILITIES, PLUS CASH AND OTHER ASSETS -- (2.2%)			(15,452)
	NET ASSETS -- 100.0%			\$ 703,993
				=====

</TABLE>

VRN = Variable Rate Note

See accompanying Notes to Financial Statements.

33

WILLIAM BLAIR MUTUAL FUNDS, INC.
STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 1995
(all amounts in thousands)

<TABLE> <CAPTION>		
	GROWTH FUND	INTERNATIONAL GROWTH FUND
<S>	<C>	<C>
ASSETS		
Investments at market (cost \$270,957 and \$83,301)	\$365,478	\$89,577
Cash	--	4
Receivable for:		
Fund shares sold	926	270
Interest and dividends	316	52
Foreign withholding tax	--	149
Unrealized appreciation on foreign currency forward contracts	--	343
Deferred organization costs	--	20

Other assets	1	3
	-----	-----
Total assets	366,721	90,418
LIABILITIES		
Payable for:		
Fund shares redeemed	111	26
Investments purchased	3,297	462
Management fee and organization costs (Notes 1 and 2)	154	103
Other	123	65
	-----	-----
Total liabilities	3,685	656
	-----	-----
Net assets	\$363,036	\$89,762
	=====	=====
CAPITAL		
Capital stock \$0.001 par value; 30,515; and 6,842 shares issued and outstanding	\$ 30	\$ 7
Paid-in-surplus	268,053	83,708
Net unrealized appreciation on investments and foreign currency transactions (net of unrealized PFIC gain distribution of \$0 and \$414)	94,521	6,212
Accumulated undistributed net realized gain (loss) on investments and foreign currency transactions	113	(452)
Undistributed net investment income	319	287
	-----	-----
Net assets	\$363,036	\$89,762
	=====	=====
Net asset value per share	\$ 11.90	\$ 13.12
	=====	=====

</TABLE>

34

WILLIAM BLAIR MUTUAL FUNDS, INC.
STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 1995
(all amounts in thousands)

<TABLE>

<CAPTION>

	INCOME FUND	LIMITED TERM TAX-FREE FUND	READY RESERVES FUND
	-----	-----	-----
<S>	<C>	<C>	<C>
ASSETS			
Investments (Cost \$142,123; \$18,793; and \$719,445, respectively)	\$145,062	\$19,087	\$719,445
Cash	--	55	--
Receivable for:			
Fund shares sold	1,246	--	8,500
Investments sold	1	--	--
Interest	1,475	234	507
Deferred organization costs	--	20	--
Other assets	2	--	22
	-----	-----	-----
Total assets	147,786	19,396	728,474
LIABILITIES			
Payable for:			
Fund shares redeemed	276	50	23,829
Management fee and organization costs (Notes 1 and 2)	75	20	360
Dividends	--	--	121
Other	65	6	171
	-----	-----	-----
Total liabilities	416	76	24,481
	-----	-----	-----
Net assets	\$147,370	\$19,320	\$703,993
	=====	=====	=====
CAPITAL			
Capital stock (\$0.001 par value; and 13,936; 1,941; and 703,993 shares issued and outstanding, respectively)	\$ 14	\$ 2	\$ 704
Paid-in-surplus	148,393	19,050	703,289
Net unrealized appreciation on investments	2,939	294	--
Accumulated undistributed net realized (loss) on investments	(3,963)	(30)	--
Undistributed net investment income	(13)	4	--
	-----	-----	-----
Net assets	\$147,370	\$19,320	\$703,993
	=====	=====	=====

Net asset value per share

\$ 10.57

\$ 9.96

\$ 1.00

</TABLE>

35

WILLIAM BLAIR MUTUAL FUNDS, INC.
STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1995
(all amounts in thousands)

<TABLE>
<CAPTION>

	GROWTH FUND	INTERNATIONAL GROWTH FUND
	-----	-----
<S>	<C>	<C>
Investment income		
Dividends	\$ 1,621	\$ 1,917
Interest	1,297	178
	-----	-----
	2,918	2,095
Less foreign tax withheld	(6)	(194)
	-----	-----
Total investment income	2,912	1,901
	-----	-----
Expenses		
Investment advisory fees (Note 2)	1,561	887
Custodian fees	77	190
Professional fees	41	37
Transfer agent fees	95	15
Registration fees	45	31
Organization costs	--	10
Miscellaneous	100	27
	-----	-----
Total expenses	1,919	1,197
	-----	-----
Net investment income	993	704
Net realized and unrealized gain (loss) on investments, foreign currency and other assets and liabilities		
Net realized gain (loss) on investments	13,274	(904)
Less foreign tax withheld on investments sold	--	(18)
Net realized gain on foreign currency transactions	--	519
	-----	-----
Total net realized gain (loss)	13,274	(403)
Change in net unrealized appreciation on investments, and other assets and liabilities (Note 1)	58,269	5,958
	-----	-----
Net realized and unrealized gain on investments, foreign currency and other assets and liabilities	71,543	5,555
	-----	-----
Net increase in net assets resulting from operations	\$72,536	\$ 6,259
	=====	=====

</TABLE>

36

STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1995
(all amounts in thousands)

<TABLE>
<CAPTION>

	INCOME FUND	LIMITED TERM TAX-FREE FUND	READY RESERVES FUND
	-----	-----	-----
<S>	<C>	<C>	<C>
Investment income			
Interest	\$10,278	\$ 763	\$36,158
	-----	-----	-----
Total investment income	10,278	763	36,158
	-----	-----	-----
Expenses			
Investment advisory fees (Note 2)	868	94	3,613
Custodian fees	57	41	115
Professional fees	33	29	38
Transfer agent fees	29	6	288
Registration fees	14	15	96

Organization costs	9	6	--
Miscellaneous	3	29	162
	-----	-----	-----
Total expenses before waiver	1,013	220	4,312
Less waiver of expenses (Note 2)	--	(214)	--
	-----	-----	-----
Net investment income	9,265	757	31,846
Net realized and unrealized gain (loss) on investments			
Net realized loss on investments	(955)	(22)	--
Change in net unrealized appreciation on investments	11,783	764	--
	-----	-----	-----
Net realized and unrealized gain on investments	10,828	742	--
	-----	-----	-----
Net increase in net assets resulting from operations	\$20,093	\$1,499	\$31,846
	=====	=====	=====

</TABLE>

37

WILLIAM BLAIR MUTUAL FUNDS, INC.
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994
(all amounts in thousands)

<TABLE>
<CAPTION>

	GROWTH FUND		INTERNATIONAL GROWTH FUND	
	1995	1994	1995	1994
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Operations				
Net investment income	\$ 993	\$ 496	\$ 704	\$ 91
Net realized gain (loss) on investments and foreign currency transactions	13,274	12,614	(403)	3,093
Change in net unrealized appreciation on investments and other assets and liabilities	58,269	(2,378)	5,958	(4,427)
	-----	-----	-----	-----
Net increase (decrease) in net assets resulting from operations	72,536	10,732	6,259	(1,243)
Distributions to shareholders from				
Net investment income	(817)	(423)	(880) (a)	(114)
Net realized gain	(13,275)	(12,616)	--	(3,679)
Tax return of capital	--	--	--	(431)
	-----	-----	-----	-----
Change from capital stock transactions	(14,092)	(13,039)	(880)	(4,224)
Capital stock transactions				
Shares sold	106,709	78,439	20,612	34,962
Shares issued in reinvestment of income				
dividends and capital gain distributions	12,714	11,700	717	3,571
Less shares redeemed	(32,391)	(20,318)	(7,349)	(2,961)
	-----	-----	-----	-----
Change from capital stock transactions	87,032	69,821	13,980	35,572
	-----	-----	-----	-----
Change in net assets	145,476	67,514	19,359	30,105
Net assets				
Beginning of period	217,560	150,046	70,403	40,298
	-----	-----	-----	-----
End of period	\$363,036	\$217,560	\$89,762	\$70,403
	=====	=====	=====	=====

Undistributed net investment income at the end of the period	\$ 319	\$ 143	\$ 343	\$ --
	=====	=====	=====	=====

Capital stock transactions				
Shares sold	9,647	8,055	1,688	2,571
Shares issued in reinvestment of income				
dividends and capital gain distributions	1,092	1,251	55	289
Less shares redeemed	(2,875)	(2,072)	(595)	(224)
	-----	-----	-----	-----
Change from capital stock transactions	7,864	7,234	1,148	2,636
	=====	=====	=====	=====

</TABLE>

(a) Includes \$414 relating to PFIC transactions which are treated as ordinary income for Federal income tax purposes.

38

WILLIAM BLAIR MUTUAL FUNDS, INC.

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994
(all amounts in thousands)

<TABLE>

<CAPTION>

	INCOME FUND		LIMITED TERM TAX-FREE FUND		READY RESERVES FUND	
	1995	1994	1995	1994 (A)	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Operations						
Net investment income	\$ 9,265	\$ 10,929	\$ 757	\$ 477	\$ 31,846	\$ 17,669
Net realized (loss) on investments	(955)	(3,010)	(22)	(8)	--	(1,268)
Change in net unrealized appreciation (depreciation) on investments	11,783	(9,564)	764	(470)	--	--
Net increase (decrease) in net assets resulting from operations	20,093	(1,645)	1,499	(1)	31,846	16,401
Distributions to shareholders from						
Net investment income	(9,438)	(10,769)	(759)	(471)	(31,846)	(17,669)
Net realized gain	--	(68)	--	--	--	--
Change from capital stock transactions	(9,438)	(10,837)	(759)	(471)	(31,846)	(17,669)
Capital contribution	--	--	--	--	--	1,268
Capital stock transactions						
Shares sold	23,930	16,905	7,367	15,809	2,514,548	1,950,105
Shares issued in reinvestment of income dividends and capital gain distributions	6,875	7,707	430	280	31,117	17,119
Less shares redeemed	(37,880)	(72,721)	(3,333)	(1,501)	(2,362,949)	(1,923,215)
Change from capital stock transactions	(7,075)	(48,109)	4,464	14,588	182,716	44,009
Change in net assets	3,580	(60,591)	5,204	14,116	182,716	44,009
Net assets						
Beginning of period	143,790	204,381	14,116	--	521,277	477,268
End of period	\$147,370	\$143,790	\$19,320	\$14,116	\$ 703,993	\$ 521,277
Undistributed net investment income at the end of the period	\$ (13)	\$ 160	\$ 4	\$ 6	\$ --	\$ --
Capital stock transactions						
Shares sold	2,337	1,646	750	1,617	2,514,548	1,950,105
Shares issued in reinvestment of income dividends and capital gain distributions	668	760	44	29	31,117	17,119
Less shares redeemed	(3,670)	(7,126)	(342)	(157)	(2,362,949)	(1,923,215)
Change from capital stock transactions	(665)	(4,720)	452	1,489	182,716	44,009

</TABLE>

(a) For the period from January 24, 1994 (Commencement of Operations) to December 31, 1994.

NOTES TO FINANCIAL STATEMENTS

(1) SIGNIFICANT ACCOUNTING POLICIES

(a) Description of the Fund

William Blair Mutual Funds, Inc. (the "Fund") is a no-load, open-end diversified mutual fund consisting of five portfolios, each with its own investment objective and policies.

The Growth Fund is a portfolio whose principal objective is to provide long-term appreciation of capital by investing in well-managed companies in growing industries.

The International Growth Fund is a portfolio which invests primarily in common stocks issued by companies domiciled outside the United States and securities convertible into, ex-changeable for, or having the right to buy such common stocks. The investment objective of the portfolio is long-term capital appreciation through investment in well-managed, quality, growth companies.

The Income Fund is a portfolio designed to provide investors with as high a

level of current income as is consistent with preservation of capital.

The Limited Term Tax-Free Fund is a portfolio designed to provide investors with as high a level of current income exempt from Federal income tax as is consistent with preservation of capital.

The Ready Reserves Fund is a money market portfolio designed for investors who are looking for professional management of their reserve assets. The Ready Reserves Fund portfolio seeks to obtain maximum current income consistent with preservation of capital and invests exclusively in high quality money market instruments.

All of the portfolio's investments are subject to market fluctuations and fiscal risks.

(b) Investment Securities

Equity securities traded on national securities markets are valued at the last sale price or, in the absence of a sale on the date of determination, at the latest bid price. Long-term fixed-income securities are valued by using market quotations or independent services that use prices provided by market makers or estimates of market values obtained from yield data relating to instruments or securities with similar characteristics. The value of a foreign security held is determined based upon its sale price on the foreign exchange or market on which it is traded as of the close of the appropriate exchange or, if there have been no sales during the day, at the latest bid price. Other securities are valued at fair value as determined in good faith by the Board of Directors. Short-term securities in all Funds except Ready Reserves Fund are valued at cost which approximates market value. Securities in Ready Reserves Fund are valued on the amortized cost method. Under this method, any premium or discount, as of the date an investment security is acquired, is amortized on a straight-line basis to maturity.

Interest income is determined on the basis of interest accrued, adjusted for amortization of premium or discount. Dividend income is recorded on the ex-dividend date, except that certain

40

dividends from foreign securities are recorded as soon as the information is available. Securities transactions are recorded on the trade date. Realized gains and losses from securities transactions are reported on an identified cost basis.

Put bonds may be redeemed at the discretion of the holder on specified dates prior to maturity. Variable rate bonds and floating rate notes earn interest at a coupon rate which fluctuates at specific time intervals. The interest rates shown in the Income Fund, Limited Term Tax-Free Fund and Ready Reserves Fund Portfolios of Investments are the coupon rates in effect at December 31, 1995.

(c) Share Valuation and Dividends to Shareholders

Shares are sold and redeemed on a continuous basis at net asset value. Each Fund determines net asset value per share by dividing the value of its Fund assets, less liabilities, by the number of shares outstanding as of the earlier of 3:00 p.m. or the daily close of business of the New York Stock Exchange for Growth Fund and International Growth Fund, 2:00 p.m. for Income Fund and Limited Term Tax-Free Fund and at 3:00 p.m. for Ready Reserves Fund. Dividends from net investment income of the Growth Fund, International Growth Fund, Income Fund, Limited Term Tax-Free Fund and Ready Reserves Fund are declared at least semi-annually, annually, monthly, monthly and daily, respectively. Dividends payable to shareholders are recorded on the ex-dividend date. Dividends are determined in accordance with Federal income tax principles which may treat certain transactions differently from generally accepted accounting principles. The International Growth Fund has elected to mark-to-market its investments in Passive Foreign Investment Companies ("PFIC") for Federal income tax purposes. In accordance with this election, \$414,000 in unrealized appreciation was recognized in 1995. The International Growth Fund's distribution for 1994 included \$431,097 relating to a tax return of capital. The permanent book and tax difference relating to this distribution resulted in a reduction to Paid-in-Surplus.

(d) Repurchase Agreements

The Fund may enter into repurchase agreements through its custodian, whereby the Fund acquires ownership of a debt security and the custodian agrees, at the time of the sale, to repurchase the debt security from the Fund at a mutually agreed upon time and price. The Fund's policy is to take possession of securities under repurchase agreements. The Fund minimizes credit risk by (i) monitoring credit exposure of the custodian and (ii) monitoring collateral value on a daily basis and requiring additional collateral to be deposited with or

returned to the Fund when deemed necessary.

(e) Foreign Currency Translation and Forward Foreign Currency Contracts

All assets and liabilities of the International Growth Fund denominated in foreign currencies are translated into U.S. dollar amounts at the current exchange rate at the day of valuation. The International Growth Fund may enter into forward foreign currency contracts as a means of managing the risks associated with changes in exchange rates for the purchase or sale of a specific amount of a particular foreign currency. Additionally, from time to time, the Fund may enter into contracts to hedge the value, in U.S. dollars, of securities it currently owns. Forward foreign currency contracts and foreign currencies are valued at the forward and current exchange rates,

41

respectively, prevailing on the day of valuation. Realized gains and losses from foreign currency transactions associated with purchases and sales of investments are included in the cost or proceeds. All other foreign currency transactions are included in net realized gain or loss from investments.

(f) Income Taxes

Each Fund intends to comply with the special provisions of the Internal Revenue Code available to regulated investment companies and, therefore, no provision for Federal income taxes has been made in the accompanying financial statements since the Funds intend to distribute their taxable income to their shareholders and be relieved of all Federal income taxes. At December 31, 1995 the International Growth Fund, the Income Fund and the Limited Term Tax-Free Fund have capital loss carryforwards of \$118,000, \$3,965,000 and \$30,000, respectively. These loss carryforwards, which expire in 2003, 2002 and 2003, respectively, can be used to offset capital gains.

(g) Organization Costs

The initial organization costs of the International Growth Fund, Income Fund and the Limited Term Tax-Free Fund have been paid or accrued by William Blair & Company (the "Company") and the Funds will reimburse the Company for the amount of such expenses not exceeding \$50,000. The deferred organization costs are being amortized on the straight-line method and repaid to the Company over a five year period.

(2) INVESTMENT ADVISORY, TRANSACTIONS WITH AFFILIATES AND DIRECTOR'S FEES

The Company serves as the Funds' Investment Adviser (the "Adviser") and provides administrative services to the Funds under a Management Agreement.

Growth Fund pays the Company an advisory fee monthly at an annual rate of .625% of the first \$75 million of average daily net assets of the Fund and .50% of the average daily net assets in excess of \$75 million. The Fund may from time to time own portfolio securities with respect to which the Adviser makes a market and/or takes a position.

International Growth Fund pays the Company an advisory fee monthly at an annual rate of 1.10% of the first \$100 million of average daily net assets and .95% of average daily net assets in excess of \$100 million. The Company has a sub-investment management agreement with Framlington Overseas Investment Management Limited (U.K.) and pays the sub-adviser a monthly fee at an annual rate equal to 0.40% of the first \$100 million of average daily net assets and 0.275% of average daily assets in excess of \$100 million.

Income Fund pays the Company an advisory fee monthly at an annual rate of .25% of the first \$100 million of average daily net assets of the Fund, .20% of the next \$150 million and .15% in excess of \$250 million of average daily net assets, plus 5.0% of the gross income earned.

Limited Term Tax-Free Fund pays the Company an advisory fee monthly at an annual rate of .25% of the first \$250 million of average daily net assets of the Fund and .20% in excess of \$250 million, plus 7.0% of the gross income earned. The Company has voluntarily agreed to waive its management fee and has paid all other operating expenses of the Fund, except for the amortization of organization costs.

42

Ready Reserves Fund pays the Company an advisory fee monthly at an annual rate of .625% of the first \$250 million of average daily net assets of the Fund, .60% of the next \$250 million, .55% of the next \$500 million, .50% of the next \$2 billion, .45% of the next \$2 billion, and .40% of average daily net assets in excess of \$5 billion.

The Company purchased U.S. Government guaranteed obligations at amortized cost from the Ready Reserves Fund in 1994. The excess of the purchase price (amortized cost) over the fair market value at the date of purchase was reflected as a capital contribution to the Fund.

The Funds paid fees of \$53,500 to non-affiliated directors of the Funds for the period ended December 31, 1995.

(3) INVESTMENT TRANSACTIONS (000 OMITTED)

Investment transactions, excluding money market instruments, for the period ended December 31, 1995, are as follows:

<TABLE>
<CAPTION>

	GROWTH FUND	INTERNATIONAL GROWTH FUND	INCOME FUND	LIMITED TERM TAX-FREE FUND
<S>	<C>	<C>	<C>	<C>
Purchases	\$162,814	\$73,889	\$70,669	\$ 4,563
Proceeds from sales and maturities	87,922	59,521	75,728	3,794
Gross unrealized appreciation (depreciation) at December 31, 1995 is as follows:				
Unrealized appreciation	\$ 98,802	\$11,041	\$ 3,275	\$ 311
Unrealized depreciation	(4,281)	(4,765)	(336)	(17)
Net unrealized appreciation	\$ 94,521	\$ 6,276	\$ 2,939	\$ 294

</TABLE>

Cost of investments is the same for financial statement and federal income tax purposes.

(4) FORWARD FOREIGN CURRENCY CONTRACTS (000 OMITTED)

In order to protect itself against a decline in the value of the Japanese yen against the U.S. dollar, the International Growth Fund entered into a forward contract with its custodian to deliver Japanese Yen in exchange for U.S. dollars as described below. International Growth Fund bears the market risk that arises from changes in foreign exchange rates and bears the credit risk if the counterparty fails to perform under the contract. The unrealized gain associated with this forward contract is reflected in the accompanying financial statements. At December 31, 1995, the International Growth Fund had the following forward foreign currency contract outstanding:

<TABLE>
<CAPTION>

FOREIGN CURRENCY TO BE DELIVERED	CONTRACT AMOUNT IN U.S. DOLLARS	SETTLEMENT DATE	UNREALIZED GAIN AT 12/31/95
<S>	<C>	<C>	<C>
900,000 Japanese Yen	\$9,086	January 19, 1996	\$ 343

</TABLE>

43

FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

GROWTH FUND	YEARS ENDED DECEMBER 31,				
	1995	1994	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	\$ 9.600	\$ 9.730	\$ 9.390	\$ 9.490	\$ 6.970
Income from investment operations:					
Net investment income	.034	.027	.035	.045	.070
Net realized and unrealized gain on investments	2.750	.581	1.389	.671	2.970
Total from investment operations	2.784	.608	1.424	.716	3.040
Less distributions from:					
Net investment income	.030	.025	.035	.047	.070
Net realized gain	.454	.713	1.049	.769	.450
Total distributions	.484	.738	1.084	.816	.520
Net asset value, end of period	\$ 11.900	\$ 9.600	\$ 9.730	\$ 9.390	\$ 9.490

	=====	=====	=====	=====	=====
Total return (%)	29.07	6.45	15.51	7.61	44.37
Ratios to average daily net assets (%):					
Expenses	.65	.71	.78	.83	.90
Net investment income	.34	.32	.38	1.34	.83
Supplemental data:					
Net assets at end of period (in thousands)	\$363,036	\$217,560	\$150,046	\$111,082	\$91,433
Portfolio turnover rate (%)	32	46	55	27	33

</TABLE>
<TABLE>
<CAPTION>

INTERNATIONAL GROWTH FUND	YEARS ENDED DECEMBER 31,			PERIOD ENDED
	1995	1994	1993	DECEMBER 31, 1992 (a) (b)
<S>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	\$12.360	\$13.180	\$10.130	\$10.000
Income from investment operations:				
Net investment income (loss)	.105	0.016	0.008	(0.011)
Net realized and unrealized gain (loss) on investments and foreign currency and other assets and liabilities	.785	(0.025)	3.401	0.141
Total from investment operations	.890	(0.009)	3.409	0.130
Less distributions from:				
Net investment income	.130 (c)	0.024	--	--
Net realized gain	--	0.714	0.359	--
Tax return of capital	--	0.073	--	--
Total distributions	.130	0.811	0.359	--
Net asset value, end of period	\$13.120	\$12.360	\$13.180	\$10.130
Total return (%)	7.22	(0.040)	33.6	1.3
Ratios to average daily net assets (%):				
Expenses (d)	1.48	1.51	1.71	1.88
Net investment income (d)	.87	.15	.11	(.56)
Supplemental data:				
Net assets at end of period (in thousands)	\$89,762	\$70,403	\$40,298	\$10,767
Portfolio turnover rate (%)	77	40	83	5

-
- (a) Ratios are annualized except total returns for periods less than one year.
(b) For the period October 1, 1992 (Commencement of Operations) to December 31, 1992.
(c) Includes \$.061 in PFIC transactions which are treated as ordinary income for Federal income tax purposes.
(d) Without the waiver of expenses in 1993 and 1992, the expense ratios would have been 2.08% and 2.55% and the net investment income ratios would have been (.25)% and (1.22)%, respectively.

44

<TABLE>
<CAPTION>

INCOME FUND	YEARS ENDED DECEMBER 31,				
	1995	1994	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	\$ 9.850	\$ 10.580	\$ 10.600	\$ 10.770	\$10.200
Income from investment operations:					
Net investment income	.646	.661	.651	.832	.945
Net realized and unrealized gain (loss) on investments	.732	(.741)	.159	(.089)	.638
Total from investment operations	1.378	(.080)	.810	.743	1.583
Less distributions:					
Net investment income	.658	.646	.651	.827	.870
Net realized gain	--	.004	.179	.086	.143
Total distributions	.658	.650	.830	.913	1.013
Net asset value, end of period	\$ 10.570	\$ 9.850	\$ 10.580	\$ 10.600	\$10.770
Total return (%)	14.37	(.74)	7.82	7.17	16.47
Ratios to average daily net assets (%):					
Expenses (a)	.68	.68	.70	.88	.92
Net investment income (a)	6.24	6.33	5.96	7.69	8.33
Supplemental data:					
Net assets at end of period (in thousands)	\$147,370	\$143,790	\$204,381	\$136,896	\$83,041

(a) Without the waiver of expenses in 1991, the expense ratio would have been 1.06% and the net investment income ratio would have been 8.19%.

45

<TABLE>
<CAPTION>

LIMITED TERM TAX-FREE FUND	YEAR ENDED	PERIOD ENDED
	DECEMBER 31, 1995	DECEMBER 31, 1994 (a) (b)
<S>	<C>	<C>
Net asset value, beginning of period	\$ 9.480	\$ 10.000
Income from investment operations:		
Net investment income	.446	.362
Net realized and unrealized gain (loss) on investments	.482	(.524)
Total from investment operations	.928	(.162)
Less distributions		
Net investment income	.448	.358
Total distributions	.448	.358
Net asset value, end of period	\$ 9.960	\$ 9.480
Total return (%)	9.96	(1.60)
Ratios to average daily net assets (%):		
Expenses (c)	.04	.11
Net investment income(c)	4.61	4.06
Supplemental data:		
Net assets at end of period (in thousands)	\$ 19,320	\$ 14,116
Portfolio turnover rate (%)	77	121

(a) Ratios are annualized except for total returns for periods of less than a year.

(b) For the period from January 24, 1994 (Commencement of Operations) to December 31, 1994.

(c) Without the waiver of expenses in 1995 and 1994, the expense ratios would have been 1.34% and 1.35% and net investment income ratios would have been 3.31% and 2.82%, respectively.

FEDERAL TAX STATUS OF DIVIDENDS

All of the dividends paid from net investment income by the Fund constitute tax-exempt interest that is not taxable for Federal income tax purposes; however, a portion of the dividends paid may be includable in the alternative minimum tax calculation.

<TABLE>
<CAPTION>

READY RESERVES FUND	YEARS ENDED DECEMBER 31,				
	1995	1994	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Income from investment operations:					
Net investment income	.0530	.0361	.0261	.0327	.0551
Net realized loss on investments	--	(.0026)	--	--	--
Total from investment operations	.0530	.0335	.0261	.0327	.0551
Less distributions from:					
Net investment income	.0530	.0361	.0261	.0327	.0551
Total distributions	.0530	.0361	.0261	.0327	.0551
Capital contribution	--	.0026	--	--	--
Net asset value, end of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total return (%)	5.45	3.67 (d)	2.64	3.32	5.64
Ratios to average daily net assets (%):					
Expenses	.72	.71	.71	.71	.71
Net investment income	5.30	3.61	2.61	3.27	5.51
Supplemental data:					

Net assets at end of period (in thousands)	\$703,993	\$521,277	\$477,268	\$448,797	\$402,978
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</TABLE>

(d) The total return includes the impact of the Company's capital contribution. Without the Company's capital contribution, the total return would have been 3.40%.

46

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
WILLIAM BLAIR MUTUAL FUNDS, INC.

We have audited the accompanying statements of assets and liabilities, including the portfolios of investments, of William Blair Mutual Funds, Inc. (comprised of Growth Fund, International Growth Fund, Income Fund, Limited Term Tax-Free Fund and Ready Reserves Fund) (together the "Funds") as of December 31, 1995, and the related statements of operations for the year then ended and changes in net assets for each of the two fiscal years in the period then ended, and the financial highlights for the periods indicated thereon. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of investments owned as of December 31, 1995, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of William Blair Mutual Funds, Inc. at December 31, 1995, and the results of their operations, the changes in their net assets and the financial highlights for the periods indicated thereon, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Chicago, Illinois
February 2, 1996

47

THE BOARD OF DIRECTORS

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VERNON ARMOUR
Private Investor

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(WM BLAIR LOGO)

222 West Adams Street
Chicago, Illinois 60606
312-364-8000

INVESTMENT ADVISER

(WM BLAIR LOGO)

TRANSFER AGENT
State Street Bank and Trust Company
P.O. Box 9104
Boston, MA 02266-9104
800-635-2886
(Massachusetts 800-635-2840)

(COPYWHITE)

GROWTH FUND

INTERNATIONAL
GROWTH FUND

INCOME FUND

LIMITED TERM

TAX-FREE FUND

READY RESERVES

FUND
DECEMBER 31, 1995
ANNUAL REPORT

This report has been prepared for the information of the shareholders of William Blair Mutual Funds, Inc. It is not to be construed as an offering to sell or buy any securities of the Fund. Such offering is made only by the Prospectus.