

USD Investment Grade Credit Fund methodology

As of 21 June 2021

Wells Fargo Asset Management (WFAM) has built our environmental, social and governance (ESG) philosophy, policies and processes around delivering on client and community expectations in a responsible and sustainable way. ESG issues, and other considerations that extend beyond traditional financial statement analysis, have been a part of how our portfolio management teams evaluate investment opportunities.

Integrating an analysis of ESG issues into our investment processes enhances our ability to manage risk more comprehensively and generate sustainable, long-term returns for our shareholders. As fiduciaries, we are committed to effective stewardship of the assets we manage on behalf of our shareholders. To us, good stewardship reflects responsible, active ownership. It encompasses both engaging with investee companies and voting proxies in a manner that we believe will maximise the long-term value of our investments, including a focus on important sustainability issues. As active owners and creditors, stewardship is integral to our investment processes and enables us to have a voice and exercise our rights towards two outcomes:

- Improving corporate disclosures and transparency to benefit investment decision-making
- Drive improvement in corporate operating, financial and sustainability performance to maximise long-term, risk-adjusted returns for our shareholders and provide value to other stakeholders more broadly

In simple terms, ESG integration is crucial to better risk management and captures important issues that may be mispriced, and when combined with serving as responsible stewards of the assets we manage, ultimately leads to better outcomes for our shareholders.

The Sustainable Investing team is a centralised function that provides resources to our investment managers. Our dedicated team serves as a centralised strategy center for WFAM's sustainable investing approach, working in concert with investment teams and across the company to put us in the best position to ensure successful client outcomes. The 9 dedicated team members encompass credit research analysts, ESG risk analysts, and stewardship and sustainable investing strategists and possess an average of 17 years industry experience and 9 years ESG/sustainability experience.

Wells Capital Management Incorporated has been appointed as the sub-adviser for the Wells Fargo (Lux) Worldwide Fund – USD Investment Grade Credit Fund (the fund). The sub-adviser works closely with credit research analysts who provide a relative-value recommendation that takes ESG risks into consideration. Analyses leverage both external ESG ratings and information as well as internal ratings.

Negative screening

The fund adheres to a minimum set of core exclusions criteria. These criteria have been defined to ensure alignment with market expectations around business activities fundamentally incompatible with investment products that have explicit ESG or sustainability objectives and include restrictions on business activities related to (together, the ESG sectors):

- Controversial weapons
- Small arms
- Tobacco
- Thermal coal and oil sands
- Violations of accepted global norms as defined by the United Nations Global Compact principles

A cross-company Exclusions Working Group including stakeholders across investment teams, sustainability experts and operations meets on a regular basis to ensure the established criteria remain fit for purpose and aligned with evolving expectations. The group officially approves the ESG sectors and exclusions criteria on an annual basis at a minimum. As a result, this document may be updated without notice.

In an effort to carry out the negative screen, WFAM has engaged with third-party data provider Sustainalytics to provide ESG research on a company's involvement in products and services and revenue analysis related to ESG sectors. The cost associated with Sustainalytics are borne by WFAM or an affiliate thereof and not the fund. WFAM has identified the below sectors as core exclusions that will apply to all ESG-led products.

Following is a list of the WFAM ESG-led core exclusions to be applied to the fund excluding derivatives and underlying investment funds.

Thresholds are based on percentage of revenue as reported by Sustainalytics.	
WFAM ESG-led core exclusions	
Sector	Threshold (%)
❖ Controversial weapons	0
- Cluster	0
- Chemical	0
- Biological	0
- Anti-personnel mines	0
- Nuclear weapons and companies involved in nuclear weapons even though they are domiciled in countries like the US that fall under the non-proliferation treaty	0
❖ Civilian small arms	
- Civilian customers (assault weapons)	0
- Civilian customers retail distributions (assault weapons)	5
- Civilian customers (non-assault weapons)	0
- Civilian customers retail distributions (non-assault weapons)	5
❖ Tobacco	
- Production	0
- Retail (for example, sales of tobacco)	5
❖ Thermal coal	
- Extraction	0
- Power generation	10
❖ Oil sands	
- Extraction	5
❖ UN Global Compact violators	0

The fund will also apply a negative screen to the lowest rating from another independent third party that assesses companies' exposures to ESG risk.

In principle, all issuers that are not in breach of the above criteria can be invested into the fund.

In the situation that an issuer is reclassified and no longer meets the threshold of the negatives screen, the sub-adviser will seek to sell the instrument in the best interest of the shareholders as soon as reasonably possible.

The negative screen will be implemented by the sub-adviser with further oversight performed by the compliance function of Wells Fargo Asset Management Luxembourg S.A. (the management company). The sub-adviser conducts daily reviews and monthly reporting is provided to the management company.

ESG risk

In assessing the eligibility of an issuer in terms of ESG classification, there is a dependence upon information and data from third-party providers. ESG information from third-party data providers may be incomplete, inaccurate or unavailable. As a result, there is a risk that the sub-adviser may incorrectly assess a security or issuer, resulting in the incorrect inclusion or exclusion of a security in the portfolio of the fund.

There is also a risk that the sub-adviser may not apply the relevant criteria of the ESG information correctly or that the fund could have indirect exposure to issuers who do not meet the relevant criteria.

To the extent that the fund uses ESG criteria as a basis for including or excluding securities from its portfolio, it may forgo opportunities in individual securities and/or sectors of securities for non-investment reasons, which could cause the fund to underperform funds that do not use such criteria.