WELLS FARGO Asset Management

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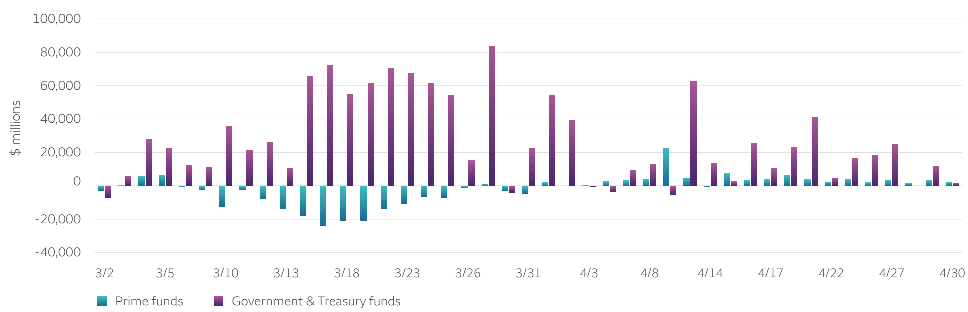
PORTFOLIO MANAGER COMMENTARY

Overview, strategy, and outlook

As of April 30, 2020

Money market overview

Daily money fund flows



Source: Crane Data

Money market fund assets continued their upward flight in April, albeit at a slightly more shallow trajectory than in March. With more than $450 billion flowing into the money markets, money fund assets reached an all-time high on April 30 of $5.04 trillion, growing by over 27% since March 1. As was the case last month, government and Treasury money market funds were the primary beneficiaries of these cash flows, amassing $363 billion in April on the heels of March's $790 billion. Total growth in that sector in just the past two months has been slightly under $1.2 trillion, an increase of more than 42%.

With lower market volatility and stabilizing net asset values (NAVs), prime and muni funds proved attractive to some investors. The prime sector, which contracted by $160 billion, or 14.6%, in March, experienced four consecutive weeks of positive cash flow through the end of April. With over $82 billion flowing back into the sector, total prime fund attrition since the beginning of March has been cut by more than half to -7.08%, or $78 billion. And muni funds, which shrank 4.2% in March, saw inflows of almost $6 billion, virtually reversing the prior month's outflows. As a result of all these flows, investment activity this month, which usually experiences net outflows due to tax season, was atypically robust.

Sector views

Prime sector

At the conclusion of its April 29 meeting, the Federal Open Market Committee (FOMC) left its target policy rate unchanged at a range of 0.00% to 0.25%. Market participants were anticipating the possibility that the Federal Reserve (Fed) might tweak recent policy actions such as expanding or changing terms on liquidity facilities or announcing purchases of Treasuries in other parts of the curve in order to keep monetary policy as easy as possible and to enhance market liquidity in this economic downturn. While no such changes were announced, the FOMC emphasized in its statement, and Fed Chair Powell reinforced in the ensuing press conference, its willingness to use and expand its full range of tools to support the economy during this coronavirus pandemic. The FOMC also retained optionality in its asset purchases by not committing to a specific amount or schedule to support functioning of markets. This provides some flexibility in case more asset purchases are warranted, or fewer purchases are needed, to support market liquidity in the future.

With the FOMC providing support to facilitate the functioning of fixed-income markets, more assets continue to flow to money market complexes. As noted above, prime assets grew $82 billion this month, and with assets growing, demand for money market products has also increased. However, not-seasonally-adjusted commercial paper outstanding dropped by $2 billion this month.

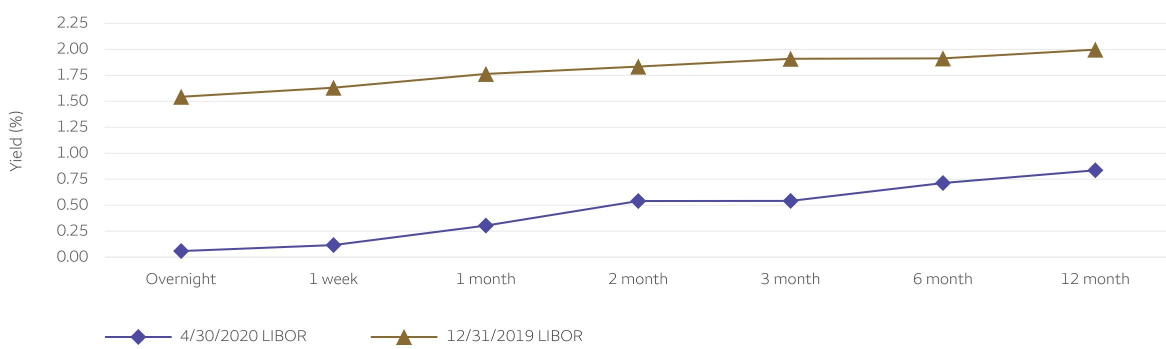
Commercial paper outstanding, not seasonally adjusted ($ billions)

		Nonfinancial			Financial				
Period	Total	Total	Domestic	Foreign	Total	Domestic	Foreign	Asset-backed	Other
End-of-month levels									
January 2020	1,149.8	307.2	222.1	85.1	587.5	240.3	347.1	253.9	1.3
February 2020	1,136.2	322.8	235.4	87.4	561.4	227.0	334.4	250.8	1.2
March 2020	1,088.8	307.0	243.1	63.9	508.3	210.1	298.2	272.4	1.1
April 2020	1,086.5	299.0	223.9	75.1	514.1	217.8	296.2	271.2	2.2

Source: Federal Reserve with data supplied by the Depository Trust & Clearing Corporation

As a result, the London Interbank Offered Rate (LIBOR), as a proxy to yields available to money markets, continues to grind lower as demand has outstripped supply.

LIBOR yield curves



Sources: Wells Fargo Asset Management and Bloomberg L.P.

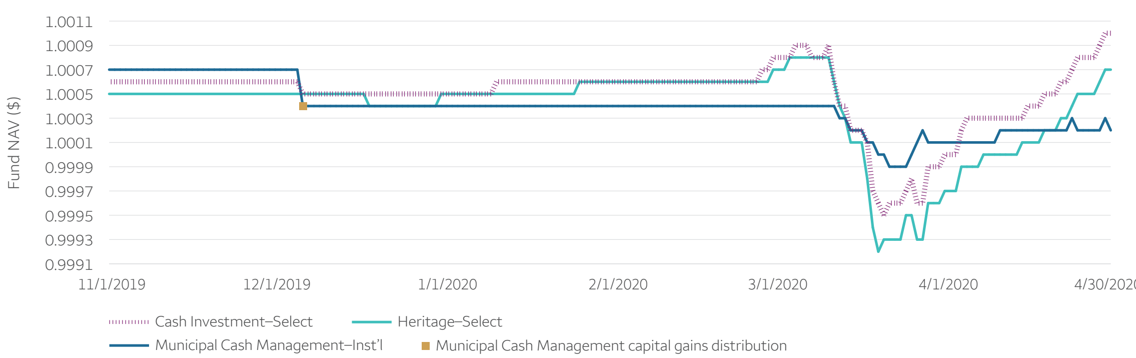
Increasing asset levels and money markets stabilizing have also had a salutary effect on credit spreads, which have tightened as well, as demonstrated in the LIBOR-Overnight Indexed Swap (LOIS) chart below. As you may recall, LOIS is the difference between three-month LIBOR and the Overnight Indexed Swap (OIS) rate. It represents the difference between an interest rate with some credit risk built in (LIBOR) and one that is relatively risk free (OIS) over a certain period, thus incorporating not only credit risk but also term premia. Typically, the LIBOR-OIS spread widens as a result of credit stresses in the banking sector or from a decline in demand from investors. While levels remained somewhat elevated, this is just another indication markets remain supported and continue to function.

LIBOR-OIS spread

Source: Bloomberg L.P.

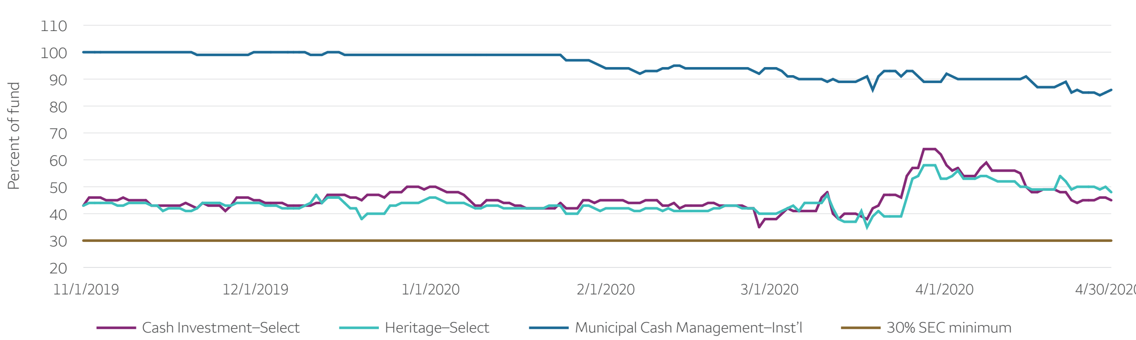
In the current environment, we favor our investment strategy of emphasizing higher levels of liquidity in our portfolios and extending where appropriate to capture higher yields. This additional liquidity buffer enhances our ability to meet the liquidity needs of our investors and helps stabilize NAV volatility while still allowing us to opportunistically add securities to enhance the fund's yield.

Wells Fargo floating net asset value (FNAV) money market fund NAVs



Source: Wells Fargo Funds

Wells Fargo FNAV money market fund weekly liquid assets



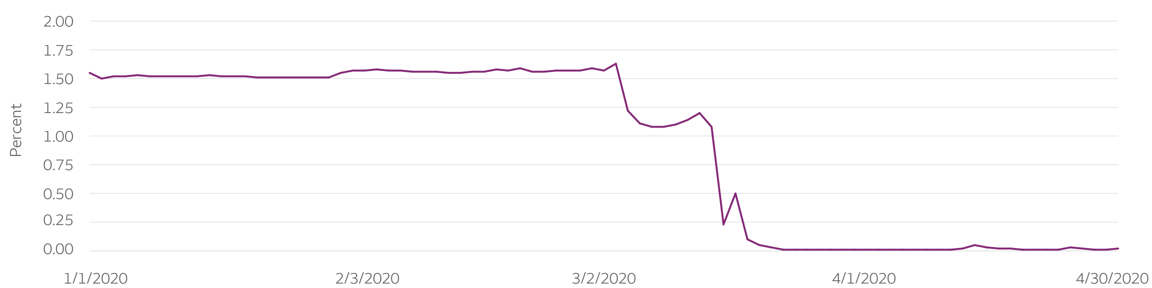
Source: Wells Fargo Funds

U.S. government sector

The bottom line is that rates are back at zero. The zero-interest-rate policy (ZIRP) that dominated the past decade is back, and it's hard to see it ending anytime soon. On the one hand, the economic pain is likely just beginning, and the nearly complete lack of visibility on the public health and economic paths forward will have the Fed solely focused on its role as rescuer. Tomorrow's important issues, like the country's unprecedented indebtedness and the unwind of the Fed's rescue efforts, including higher rates, can wait. On the other hand, the Fed has consistently declined to show any affection for negative interest rates, so lower rates seem just as unlikely. In the money markets, then, we're left with small meandering movements in rates within the Fed's target range, somewhere around zero, driven by changes in supply and demand and regulatory and official actions.

Issues that had been important, like where repo rates and the effective federal funds rate (the Fed's target rate) traded within the Fed's target range, faded to insignificance over the past two months. But those issues are back, and now that the target range looks to be chiseled into stone, they seem even more important. The Fed's tri-party repo gauge registered 0.01% for more than half of April, averaging 0.02%, as shown in the chart below. By contrast, Treasury bill (T-bill) yields across the curve have settled in nearer to 0.10%. Needless to say, while neither is a picnic, short-end investors would rather earn a return closer to the middle of the Fed's 25-basis-point (bp)[1] range than the bottom.

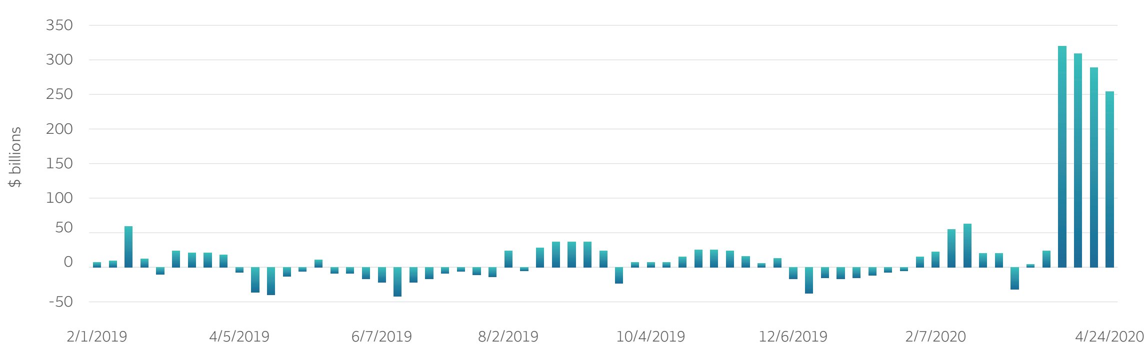
Tri-party repo rate



Sources: Federal Reserve Bank and Bloomberg L.P.

With ZIRP back, the primary source of drama has been the Treasury's funding escapade, with its need to raise literally more than $1 trillion to begin its fiscal recovery efforts. There was reasonable concern about the market's ability to seamlessly take down that kind of size, with some remembering how the spring 2018 bump in T-bill issuance rattled the market. In retrospect, that was just a little molehill of issuance, and it affected the market because there was no offsetting demand increase. Since March 30, 2020, the Treasury has issued $1.1 trillion in cash management bills, which, when combined with larger regular weekly auctions, has added just shy of $1.4 trillion of net supply to the market. The chart below gives a sense of the scale of the current activity compared with the usual gyrations of the past three years.

Weekly net new T-bill issuance



Source: U.S. Treasury

That the mountain of new T-bills has not destabilized the market speaks to the enormity of the offsetting demand, which has come in waves. The first wave saw flight-to-quality buyers who sought the perceived surest path to comfort, resting in the shade of a T-bill. The second wave was driven by the Fed's giant Treasury purchases, which were larger and at a much more rapid pace than earlier quantitative easing (QE) operations. QE creates reserves in the banking system and takes Treasuries out of private hands, reducing the pool of collateral needing to be financed in the repo market, which then drives money from that market into other safe instruments, such as T-bills. The third wave is one that demonstrates the circularity in the money markets, as dollars move from entity to entity, often ending up back where they started. In this case, it went like this: The Treasury issued T-bills, then distributed the money to individuals, companies, and municipalities, some of which then used the money to buy T-bills. From a market standpoint, some of the demand that offset the supply surge came from the proceeds of the supply itself. Go figure.

Municipal sector

With a turbulent March in the rearview mirror, the municipal money market space continued to regain its footing during the month of April. Investor confidence continued to grow following the aggressive actions taken by the Fed to improve liquidity in the financial markets the previous month. In early April, the Fed introduced another important program called the Municipal Liquidity Facility, which is designed to provide up to $500 billion in direct financing to state and local governments in order to help alleviate cash flow issues due to the coronavirus. The financing would be in the form of short-term notes with maturities up to 36 months.

As noted previously, approximately $5.7 billion flowed into municipal money market funds this month. The return of demand led overall rates in the sector to rapidly normalize. The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[2] plummeted throughout the month as demand for variable-rate demand notes (VRDNs)[3] and tender option bonds (TOBs)[4] accelerated as inflows into municipal and prime funds grew. The index closed out the month at 0.22%—a far cry from the 5.20% level reached on March 18. However, municipals remain relatively attractive as the SIFMA/1-week LIBOR ratio remained elevated at 169%. Further out on the curve, yields on one-year high-grade paper fell to roughly 0.80%, down from 1.34% the previous month.

During the month, we continued to focus our purchases primarily in VRDNs and TOBs with daily and weekly puts. However, we have continued to opportunistically increase exposure to fixed-rate securities in order to take advantage of the sudden steepness of the municipal yield curve. We are also maintaining our strategy of increasing allocations to commercial paper, cash flow notes, and prerefunded bonds, primarily in the 3- to 6-month range. Accordingly, our portfolio weighted-average maturities are now in the 20- to 25-day range.

Rates for sample investment instruments—current month-end % (April 2020)

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	0.02	0.03	–	–	–	–	–
Fed reverse repo rate	0.00	–	–	–	–	–	–
U.S. Treasury bills	–	–	0.06	0.08	0.09	0.10	0.15
Agency discount notes	0.00	0.00	0.03	0.04	0.07	0.11	0.11
LIBOR	0.06	0.12	0.30	0.54	0.54	0.71	0.84
Asset-backed commercial paper	0.10	0.22	0.50	0.70	0.67	0.75	–
Dealer commercial paper	0.00	0.00	0.15	0.33	0.48	0.68	–
Municipals	0.20	0.22	0.55	0.56	0.57	0.65	0.80

Sources: Bloomberg L.P. and Wells Capital Management

Wells Fargo Fund	7-day current yield
Cash Investment MMF*–Select	0.80%
Heritage MMF*–Select	0.69%
Municipal Cash Management MMF*–Inst'l	0.17%
Government MMF**–Select	0.19%
Treasury Plus MMF**–Select	0.16%
100% Treasury MMF**–Inst'l	0.17%

Source: Wells Fargo Funds

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes that a shareholder may pay on an investment in a fund. *Yields will fluctuate. Current performance may be lower or higher than the performance data quoted and assumes the reinvestment of dividends and capital gains. Current month-end performance is available at the funds' website, wfam.com.*

Money market funds are sold without a front-end sales charge or contingent deferred sales charge. Other fees and expenses apply to an investment in the fund and are described in the fund's current prospectus.

The manager has contractually committed to certain fee waivers and/or expense reimbursement through May 31, 2020, to cap the funds' total annual fund operating expenses after fee waivers. Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses (if any), and extraordinary expenses are excluded from the expense cap. Without these reductions, the seven-day current yield for the Institutional Class of the Cash Investment Money Market Fund, Heritage Money Market Fund, Municipal Cash Management Money Market Fund, Government Money Market Fund, Treasury Plus Money Market Fund, and 100% Treasury Money Market Fund would have been 0.68%, 0.59%, 0.04%, 0.12%, 0.08%, and 0.15%, respectively, and the total returns would have been lower. Prior to or after the commitment expiration date, the cap may be increased or the commitment to maintain the cap may be terminated only with the approval of the Board of Trustees. The expense ratio paid by an investor is the net expense ratio (the total annual fund operating expenses after fee waivers) as stated in the prospectus.

For more information, please contact:

Institutional Sales Desk: **1-888-253-6584**

Website: **wfam.com**

(Click "Select Your Role" in the top navigation and select "Institutional Cash Investor")

1. 100 bps equal 1.00%

2. The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index is a seven-day high-grade market index composed of tax-exempt variable-rate demand obligations with certain characteristics. The index is calculated and published by Bloomberg. The index is overseen by SIFMA's Municipal Swap Index Committee. You cannot invest directly in an index.

3. Variable-rate demand notes (VRDNs) are debt securities commonly held within the Wells Fargo Money Market Funds. Like all bonds, VRDN values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes can be sudden and unpredictable. In addition to credit and interest rate risk, VRDNs are subject to municipal securities risk.

4. A tender option bond (TOB) is a type of VRDN where a long-term bond is placed into a trust. Floating-rate securities are created from the trust.

**For floating NAV money market funds: You could lose money by investing in the fund. Because the share price of the fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.*

For retail money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

***For government money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.*

For the municipal money market funds, a portion of the fund's income may be subject to federal, state, and/or local income taxes or the alternative minimum tax. Any capital gains distributions may be taxable. For the government money market funds, the U.S. government guarantee applies to certain underlying securities and not to shares of the fund

The views expressed and any forward-looking statements are as of April 30, 2020, and are those of the fund managers and the Money Market team at Wells Capital Management, subadvisor to the Wells Fargo Money Market Funds, and Wells Fargo Funds Management, LLC. Discussions of individual securities, the markets generally, or any Wells Fargo Fund are not intended as individual recommendations. Future events or results may vary significantly from those expressed in any forward-looking statements; the views expressed are subject to change at any time in response to changing circumstances in the market. Wells Fargo Asset Management disclaims any obligation to publicly update or revise any views expressed or forward-looking statements.

Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and, if available, a summary prospectus, containing this and other information, visit wfam.com. Read it carefully before investing.

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