WELLS FARGO Asset Management

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PORTFOLIO MANAGER COMMENTARY

Overview, strategy, and outlook

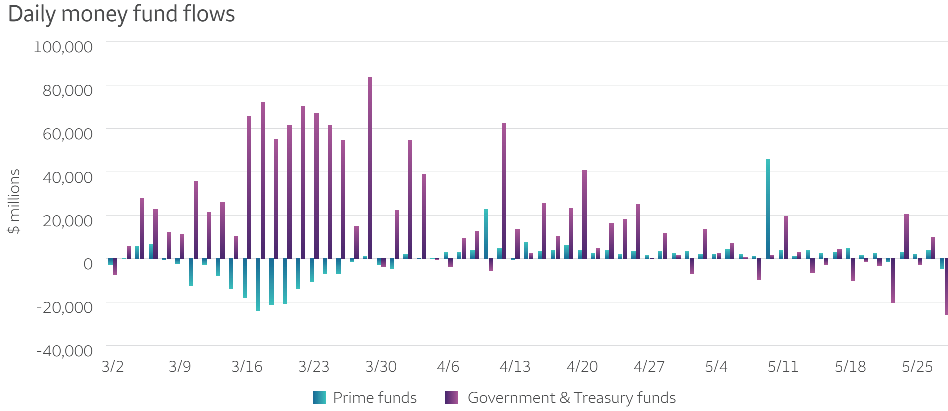
As of May 31, 2020

Money market overview

Industry flows in May slowed markedly from the previous two months, though funds still continue to draw assets. The industry attracted a meager $81 billion in new assets during this month, compared with $451 billion in April and $625 billion in March. Inflows in the prime money market funds of more than $87 billion far outpaced those into government and Treasury money market funds, which, in a reversal from March and April, saw balances shrink by $5.5 billion.

Since March 1, $1.2 trillion has flowed into money market funds, bringing industry assets to a record $5.12 trillion, after crossing the $5 trillion threshold last month. Even after the relatively small (in comparison to total asset class balances) outflows, balances in government and Treasury money market funds remained relatively flat at $3.9 trillion. Prime fund assets, however, set a new post-reform record at $1.1 trillion after experiencing inflows in all but two trading days during the month. And finally, municipal money market funds ended the month essentially flat at $139 billion after experiencing withdrawals of $360 million.

Daily money fund flows



Source: Crane Data

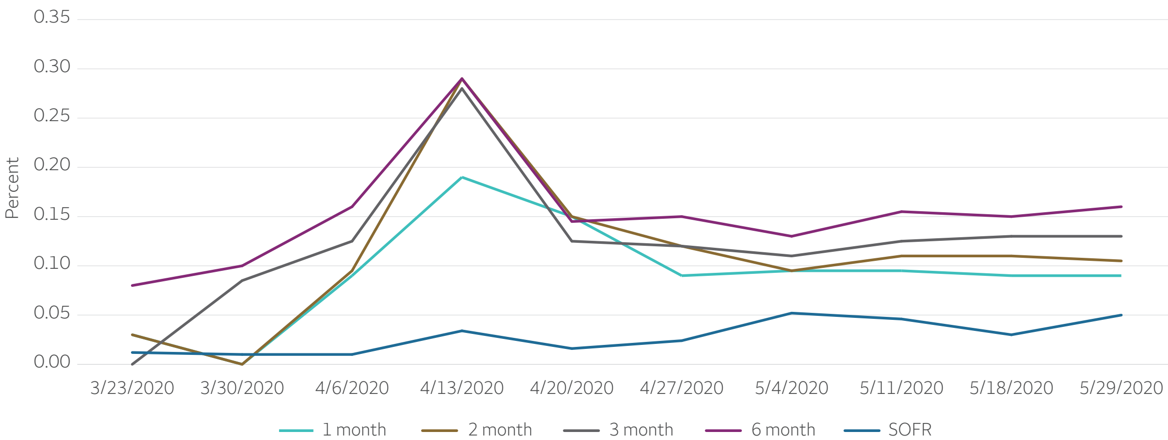
Sector views

U.S. government sector

Rates have settled in near zero as the Federal Reserve (Fed) will get to the business of helping the economy recover from a brief, nearly total shutdown followed by partial shutdowns of varying degrees, for yet-to-be-determined durations, in different places. The easiest and quickest step the Fed could take was its first: lowering interest rates to zero. It has followed with many others, which it will fine-tune over time, including quantitative easing, forward guidance, and various forms of credit support.

Market activity in the money markets has been remarkably orderly considering how many moving parts there have been, with the Fed's target rate falling 1.50%, unprecedented Fed Treasury purchases, unprecedented Treasury bill issuance, and unprecedented flows into government money market funds. As a recent college graduate said, "I'd like to go back to living in precedented times." The money markets have soldiered on with aplomb, with a brief bout of supply-induced price discovery in mid-April giving way to well-defined ranges. As shown in the chart below, overnight repo has generally yielded 1 to 5 basis points (bps)[1], while Treasury bills have ranged from 9 bps to 16 bps, with the weekly auction yields coming at consistent levels like clockwork.

Secured Overnight Financing Rate and Treasury bill auction yields



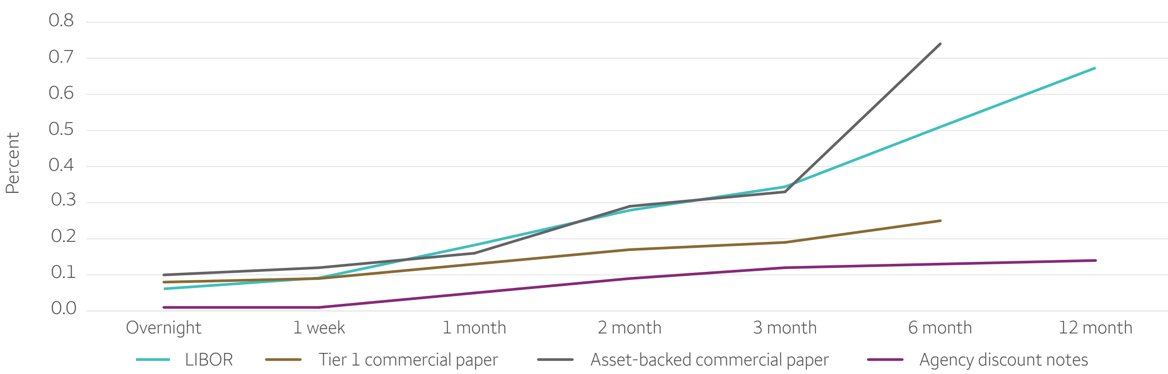
Sources: Bloomberg L.P. and Wells Fargo Asset Management

The outlook is for more of the same. Net new Treasury bill supply since late March just topped $2 trillion, and the Treasury's outlook suggests at least another $1 trillion is on the way this year. On one hand, it looks like the bulk of the supply is behind us. On the other, the trillion still to come is a big number. It's possible that the extra trillion finally runs out of buyers and yields have to move higher to attract more, and it's also possible that as supply wanes, the consistent demand pushes rates down closer to repo levels. For now, the markets have settled in.

Prime sector

The stabilization trend in money markets continued this month. With the Federal Open Market Committee providing support to facilitate fixed-income market functioning, more assets continue to flow into money market complexes. Supply and demand imbalances have created a favorable technical situation that is supportive of liquidity and asset performance in prime money markets. Positive asset flows into prime markets coupled with decreases in commercial paper outstanding have caused yields to decrease and spreads to narrow as more dollars are chasing less product. As reported by Crane Data, prime assets grew $87 billion this month on top of $82 billion last month, causing an increase in demand for money market securities. However, total not-seasonally-adjusted commercial paper outstanding dropped by roughly $40 billion this month as issuers have opportunistically termed out liabilities to capture low rates and capture tight credit spreads. Part of this decrease in commercial paper issuance has been due to a record amount of corporate debt issued this year: Year-to-date total investment-grade issuance surpassed $1 trillion in May, an amount that was not reached until November last year.

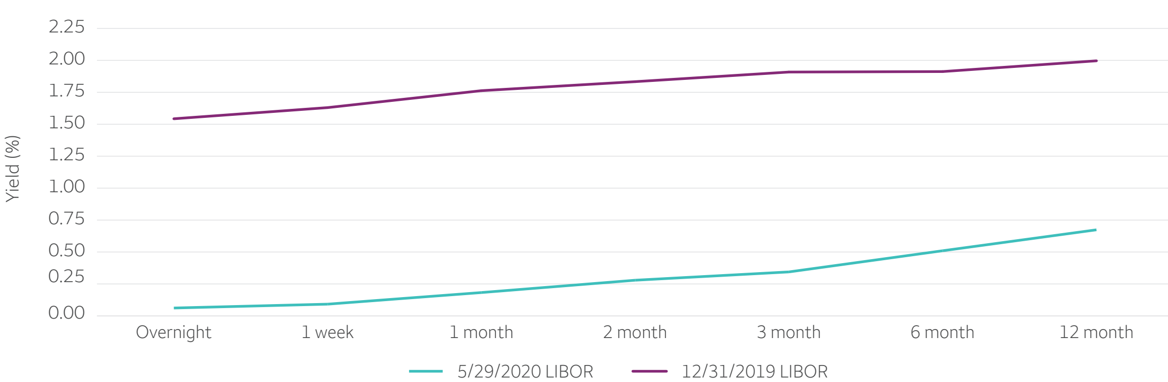
Money market yield curves as of 5/31/2020



Sources: Bloomberg L.P. and Wells Capital Management Inc.

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

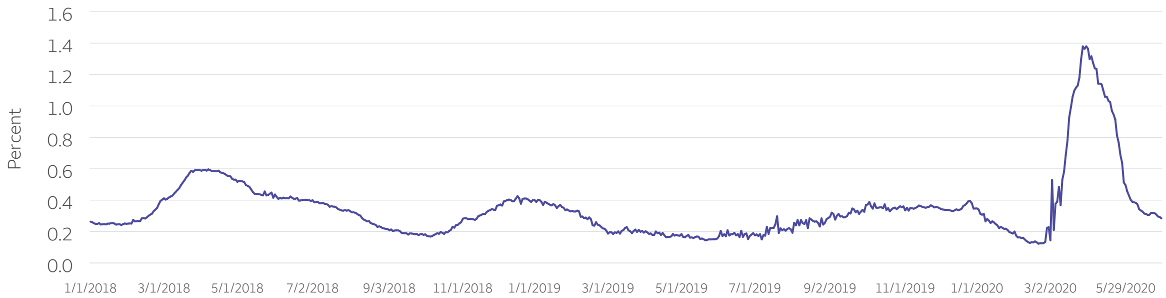
LIBOR yield curves



Source: Bloomberg L.P.

The money markets stabilizing and supply/demand imbalances have had a favorable effect on credit spreads. The LIBOR-OIS chart below shows a tightening of credit spreads as investors were willing to pay a higher premium for product. With credit spreads reaching levels that are similar to those in the pre-coronavirus environment, this is yet another indication markets remain supported and continue to function with increased liquidity.

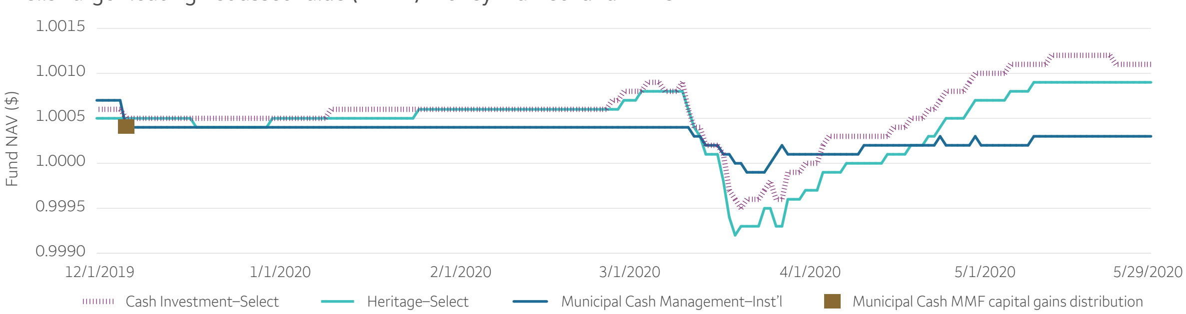
LIBOR-OIS spread



Source: Bloomberg

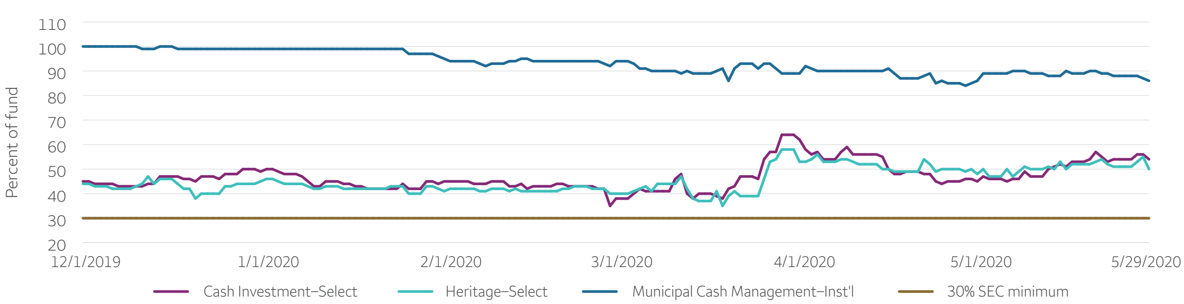
In the current environment, we favor our investment strategy of emphasizing higher levels of liquidity in our portfolios and extending where appropriate to capture higher yields. This additional liquidity buffer enhances our ability to meet liquidity needs of our investors and helps stabilize net asset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

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

Municipal sector

Rates in the municipal money market sector continued to normalize throughout the month of May. Following a surge in assets in April, municipal money market fund assets were relatively flat at roughly $139 billion, according to Crane Data. However, improving investor sentiment in the municipal space at large led to an increase in demand throughout the curve. Demand for variable-rate demand notes (VRDNs)[2] and tender option bonds (TOBs)[3] in the overnight and weekly space pushed the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[4] down to 0.14% from 0.22% at the end of April. The municipal yield curve flattened as rates on high-grade one-year paper fell to roughly 0.30% from 0.80% the previous month.

During the month, we continued to focus our purchases primarily in VRDNs and TOBs with daily and weekly puts. However, we also opportunistically increased our exposure to fixed-rate securities in order to take advantage of the sudden steepness of the municipal yield curve. We have continued to increase allocations to commercial paper, cash flow notes, and prerefunded bonds, primarily in the 3-month to 6-month range. Accordingly, our portfolio weighted average maturities[5] are now in the 20- to 25-day range.

On the horizon

The big question on the minds of many money market professionals is, "What happens now?" Do assets continue to flow into the funds? Or will we see assets flow out? In the very short term, two tax payment dates will be coming up—the regular June 15 corporate tax payment due date and the July 15 pandemic-extended 2019 tax payment deadline—both of which seem to indicate that we will see some outflows from funds over the next two months. However, those flows are not likely to rise to the same level that we saw with inflows. Inflows over the past few months have come from a variety of sources: capital markets proceeds, liquidations of risk assets, liquidity raises for general corporate purposes, and proceeds from recent fiscal stimulus and safety net programs, to name a few. It seems reasonable to expect then that outflows from funds will occur gradually as we recover from recent dislocations and proceeds are deployed for general and specific economic purposes. Until we, as an industry, begin to see more clarity on the longevity of recent cash flows, we may continue to see funds carry elevated levels of liquidity to ensure cash is there to meet investor needs.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	0.05	0.05	–	–	–	–	–
Fed reverse repo rate	0.00	–	–	–	–	–	–
U.S. Treasury bills	–	–	0.11	0.12	0.13	0.15	0.16
Agency discount notes	0.01	0.01	0.05	0.09	0.12	0.13	0.14
LIBOR	0.06	0.09	0.18	0.28	0.34	0.51	0.67
Asset-backed commercial paper	0.10	0.12	0.16	0.29	0.33	0.74	–
Dealer commercial paper	0.08	0.09	0.13	0.17	0.19	0.25	–
Municipals	0.11	0.14	0.15	0.16	0.17	0.23	0.30

Sources: Bloomberg L.P. and Wells Capital Management

Wells Fargo Fund	7-day current yield
Cash Investment MMF*–Select	0.45%
Heritage MMF*–Select	0.45%
Municipal Cash Management MMF*–Inst'l	0.07%
Government MMF**–Select	0.12%
Treasury Plus MMF**–Select	0.11%
100% Treasury MMF**–Inst'l	0.07%

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 0.33%, 0.35%, -0.04%, 0.05%, 0.02%, and 0.05%, 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. 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.

3. 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.

4. 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.

5. Weighted average maturity (WAM): An average of the effective maturities of all securities held in the portfolio, weighted by each security's percentage of total investments. The maturity of a portfolio security is the period remaining until the date on which the principal amount is unconditionally required to be paid, or in the case of a security called for redemption, the date on which the redemption payment is unconditionally required to be made. WAM calculations allow for the maturities of certain securities with demand features or periodic interest rate resets to be shortened. WAM is a way to measure a fund's sensitivity to potential interest rate changes. WAM is subject to change and may have changed since the date specified.

**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.

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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 May 31, 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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