Wells Fargo Asset Management

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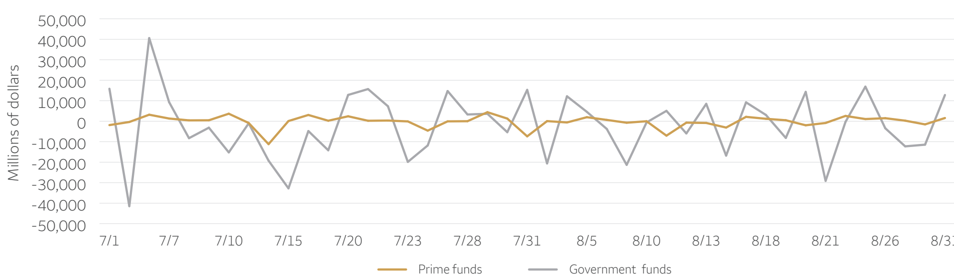
PORTFOLIO MANAGER COMMENTARY

Overview, strategy, and outlook

As of August 31, 2020

Money market overview

July and August 2020 money market industry flows



Source: Crane Data

The outflows the industry experienced in June were confirmed as a trend during the ensuing two months, though the pace declined sharply. After shedding $111 billion in assets in June, money market fund assets declined another $102 billion over the two-month period that ended August 31. Government and Treasury funds lost another $86 billion on the heels of June's loss of $131 billion, bringing total assets under management to $3.7 trillion after peaking on May 13 at $3.915 trillion. Prime funds also experienced an erosion in their asset base, losing $8.6 billion after gathering $22.9 billion the previous month—this in spite of reaching a new high in assets under management on July 10 of $1.135 trillion. Even municipal funds were not immune, shrinking a further $7.4 billion and finishing August with assets of $128 billion.

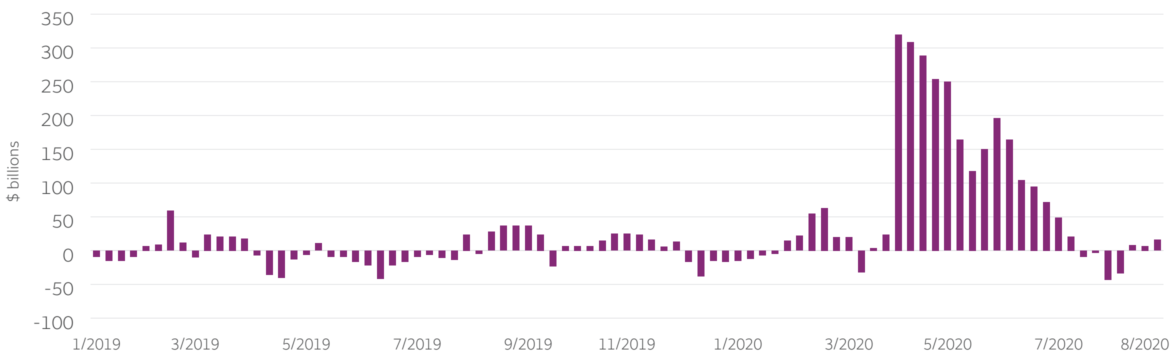
Given the sources of asset flows into the funds, it's not surprising to see this decline in assets occurring. As money from federal coronavirus-related financial assistance programs gets spent down and corporations and small businesses get back to work, it's likely that the cash reserves to fund a resumption in activity will be depleted and money market balances will continue to trend down over the very near future. Additionally, corporate tax day is right around the corner, likely leading to a spike in redemptions around September 15. Normal seasonal flows for funds typically show an increase going into year-end. With this year being rather atypical, to say the least, it's unclear whether we will see this type of behavior in funds as the year winds down.

Sector views

U.S. government sector

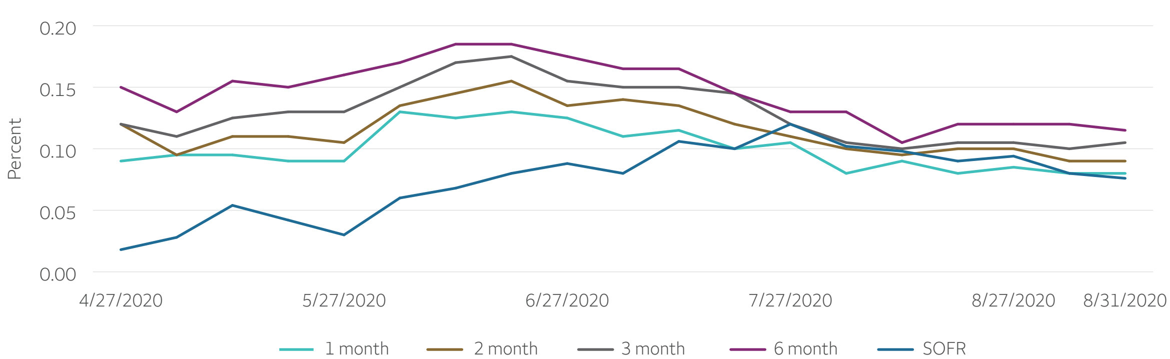
The biggest news over the summer is what didn't happen, as the widely expected next stimulus bill not only didn't get over the finish line but also didn't really even show up to the track. The kinds of things that usually inject urgency into the process were largely absent, as economic data was generally better than feared and equities were buoyant. A stimulus bill would have meant more government spending, quickly, and would've required more Treasury bills (T-bills) to fund it. In its absence, T-bill supply has leveled off and market yields have declined and flattened, as shown in the two charts below. If another stimulus bill does eventually pass, the additional supply, though significant, will likely be but a fraction of what the market digested in the spring, with perhaps a correspondingly smaller increase in yields.

Weekly net new T-bill issuance



Source: U.S. Treasury

Secured overnight financing rate and T-bill auction yields



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

There appears to be a disconnect in the bigger-picture view of the post-pandemic world, with equities, near all-time highs, seeing the joy and exuberance of the Roaring Twenties Part II, while bonds and the Federal Reserve (Fed) see a 10% unemployment rate and an economy with scars that will be hard to heal no matter how much Amazon and Apple are worth. It's all academic for the money markets, however, as 5-year Treasuries trading around 0.27% strongly suggest we will be in the 0.00%–0.25% overnight range for a long, long time.

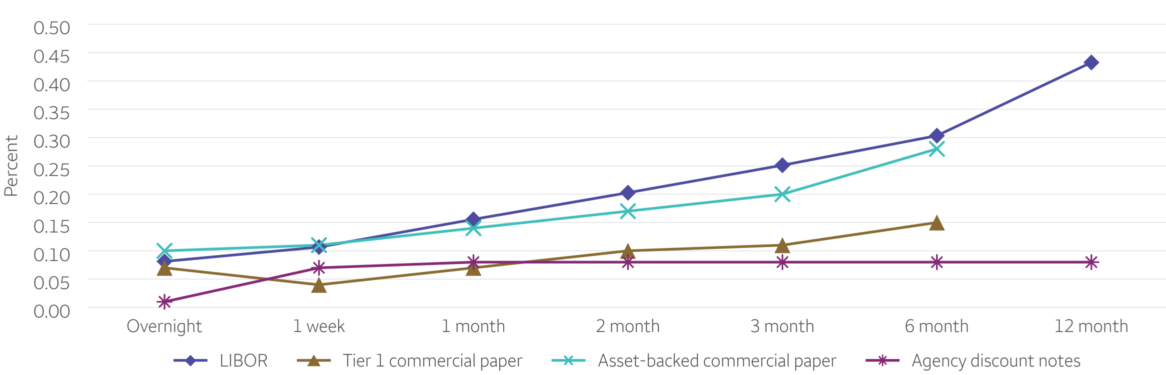
Prime sector

The Federal Open Market Committee (FOMC) left its target rate unchanged at 0.00% to 0.25% at the conclusion of the July meeting. Because the FOMC was in the process of completing a policy framework review, market expectations were quite low for any material resulting from this meeting. Although absent major changes, the policy statement did highlight that "economic activity and employment have picked up somewhat in recent months but remain well below their levels at the beginning of the year," while cautioning that "the path of the economy will depend significantly on the course of the virus." In other words, the Fed's target rate will be "on hold" for quite some time.

Instead of being released at the September FOMC meeting, the updated policy framework was introduced at the Fed's annual Jackson Hole policy symposium on August 27. Following a more than year-long review, the FOMC introduced changes that will seek, among other things, inflation that ***averages*** 2% ***over time***, thus allowing for inflation to run higher than 2% after a period of weakness. It also adjusted its vision of full employment to allow labor market gains to reach more workers as maximum employment is a "broad-based and inclusive goal." The FOMC will focus on shortfalls rather than deviations from maximum employment. While more clarity is to come on the mechanics of execution, the FOMC believes these changes will aid in fulfilling its dual mandate of maximum employment and price stability.

As the FOMC is clearly in an accommodative monetary policy mode for the foreseeable future, money market yield curves continue to flatten. The lack of a stimulus package combined with no corresponding increase in T-bill supply have resulted in government yields plummeting. Credit metrics in the prime space, though, continue to be well supported by the liquidity injected into the economy and regulatory relief by the Fed. Bank capital requirements are stable, while liquidity and interest coverage ratios remain favorable. The combination of solid market liquidity, well-supported credit metrics, and lower government yields has induced managers to broaden the search for yield, causing prime yields to compress as well.

Money market yield curves, as of 8/31/2020



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

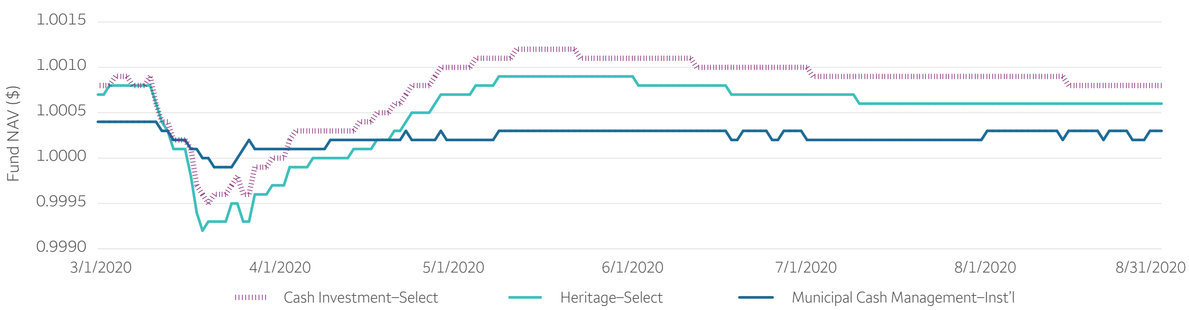
As long-term investment-grade debt issuance maintains its record pace, the need to issue short-term debt has decreased, causing a supply dynamic that promotes a flatter curve. In addition to yields flattening, credit spreads in the money market space have narrowed as the demand for yield is quite strong. As you may recall, LOIS is the difference between three-month London Interbank Offered Rate (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 time 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. As spread levels compress, this is just another indication that markets remain supported and liquidity is favorable.

LIBOR-OIS spread

Source: Bloomberg L.P.

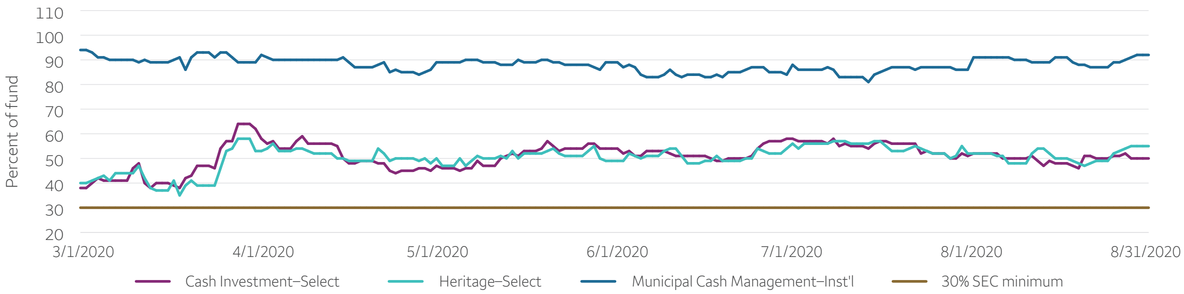
Our investment strategy continues to emphasize higher levels of liquidity in our portfolios and extending maturities where appropriate to capture higher yields. This additional liquidity buffer enhances our ability to meet the liquidity needs of our investors and helps stabilize net asset value (NAV) 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 drift lower during August as inflows into municipal bond funds outweigh outflows from municipal money market funds. Demand for variable-rate demand notes (VRDNs)[1] and tender option bonds (TOBs)[2] in the overnight and weekly space pushed the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[3] down to 0.09% on August 26, down from 0.16% the previous month. Although assets in municipal money market funds continued to trend lower, short-term rates remain capped as longer-term muni funds experienced ongoing steady inflows and taxable crossover buyers continued to opportunistically add tax-exempt VRDNs.

During the past two months, we focused our purchases primarily in VRDNs and TOBs with daily and weekly puts. However, we have also opportunistically added exposure to fixed-rate securities as the increase in supply on the long end resulted in a steepening of the municipal yield curve. The highlight deal recently came from the annual funding by the State of Texas, which issued $7.2 billion in one-year notes at an average rate of 0.23%. Accordingly, we have extended our weighted average maturities in our portfolios given the outlook for lower-for-longer short-term rates via Fed policy, while maintaining weekly liquidity in a comfortably high range of 75% to 90%.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	0.07	0.08	–	–	–	–	–
Fed reverse repo rate	0.00	–	–	–	–	–	–
U.S. Treasury bills	–	–	0.08	0.09	0.10	0.11	0.11
Agency discount notes	0.01	0.07	0.08	0.08	0.08	0.08	0.08
LIBOR	0.08	0.11	0.16	0.20	0.25	0.30	0.43
Asset-backed commercial paper	0.10	0.11	0.14	0.17	0.20	0.28	–
Dealer commercial paper	0.07	0.04	0.07	0.10	0.11	0.15	–
Municipals	0.04	0.09	0.12	0.13	0.14	0.17	0.20

Sources: Bloomberg L.P. and Wells Capital Management

Wells Fargo Fund	7-day current yield
Cash Investment MMF*–Select	0.20%
Heritage MMF*–Select	0.15%
Municipal Cash Management MMF*–Inst'l	0.02%
Government MMF**–Select	0.06%
Treasury Plus MMF**–Select	0.06%
100% Treasury MMF**–Inst'l	0.01%

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, 2021, 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 0.13%, 0.08%, 0.02%, 0.01%, 0.01%, and 0.01%, 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**

If you're an institutional investor, when you visit the website, click on your location, and select your role on the welcome screen as "Institutional Cash Investor."

1. 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.

2. 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.

3. 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.

**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 August 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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INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

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