WELLS FARGO Asset Management

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PORTFOLIO MANAGER COMMENTARY

Overview, strategy, and outlook

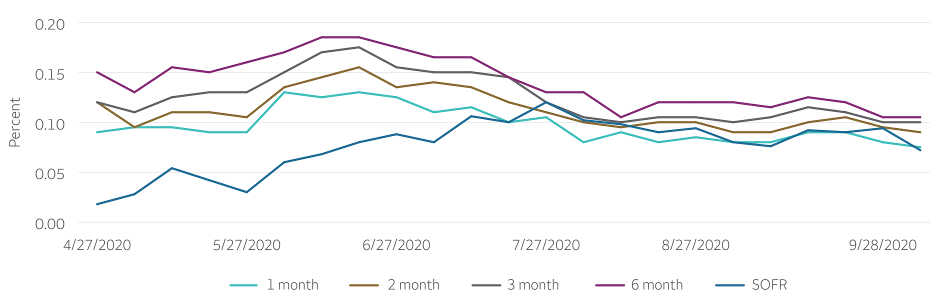
As of September 30, 2020

Sector views

U.S. government sector

Stop me if you think you've heard this one before: The government money markets slumbered through September. Additional stimulus is missing in action; Treasury bill (T-bill) auction sizes were unchanged; the Treasury continues to carry a super-sized cash balance of around $1.6 trillion; and rates were largely stable, grinding a touch lower as the third quarter came to a close, as shown below.

Secured overnight financing rate and T-bill auction yields



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

As September closed, the powers that be in Washington were continuing to consider a preelection stimulus bill. In the event of a continued failure to reach an agreement, the fate of future stimulus would likely be a product of the results of the November election. When those results are finally known, front-end participants will be keenly watching for clarity on the amount and timing of potential additional stimulus. Whenever it comes, greater stimulus will be partially funded by the Treasury's current cash on hand, with the balance funded by additional Treasury supply, which would tend to bias rates higher.

But, whether the stimulus comes on the larger or smaller size, the Treasury is not likely to continue to sit on its historically large cash balance indefinitely. Since reducing the cash balance creates reserves on the Federal Reserve's (Fed's) balance sheet, the additional demand would weigh on rates. It's possible, as well, that the election's approach and immediate aftermath could lead to a risk-off tone in the financial markets, which often brings additional demand for government securities. In other words, there will be no shortage of market influences over the next few months.

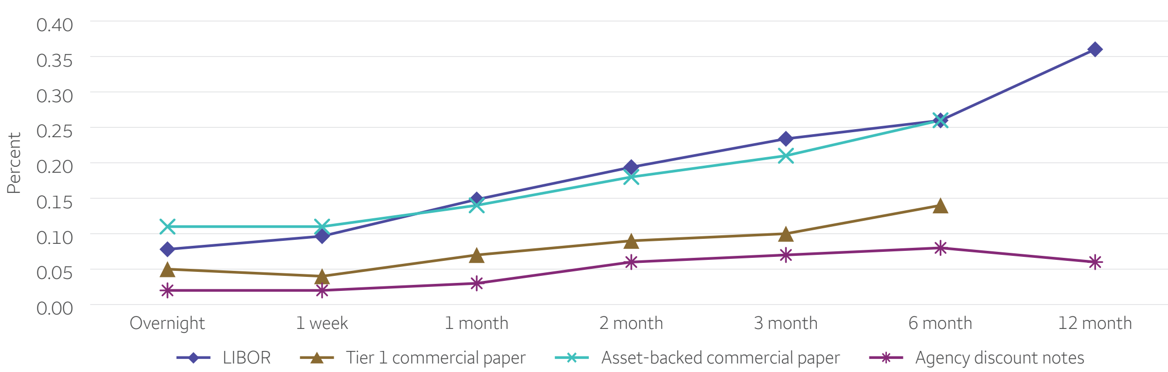
Prime sector

As we mentioned last month, one of the changes the Federal Open Market Committee (FOMC) announced at its annual Jackson Hole policy symposium in August was that it would seek inflation that averages 2% *over time*, thus allowing for inflation to run higher than 2% after a period of weakness. At the conclusion of the September 16 FOMC meeting, the Fed announced just that as its new policy framework: voting to leave interest rates unchanged. The Fed noted its expectation to maintain an accommodative stance until inflation averages 2% over time, with longer-term inflation expectations well anchored at 2%, and until employment reaches its maximum level. The vote had two dissenters, one who wanted to retain more flexibility and another who was more dovish, wanting core inflation to sustain 2% before a change to monetary policy. The Fed repeated that it would use its full range of tools to support the economic recovery and would continue its buying program of Treasury and mortgage-backed securities but cautioned "the path of the economy will depend significantly on the course of the virus." The efforts to control the spread of COVID-19 continue to depress sectors of the economy, and the lack of fiscal stimulus threatens overall economic growth.

Included in the press release from the meeting was the quarterly update to the Summary of Economic Projections, or dot plot. The dot plot charts the federal funds target remaining in a range of 0.00% to 0.25% through year-end 2023. "Welcome back, zero interest rate policy (ZIRP), we barely had time to miss ya!" Other data projections showed improvements by year-end, with gross domestic product (GDP) now expected at -3.7% versus last quarter's -6.5% and the unemployment rate projected at 7.6% versus 9.3%. Interestingly, the top range of inflation projections, as measured by the Personal Consumption Expenditures Index,[1] is 2% by 2021.

With a lack of fiscal stimulus alleviating any hint of supply pressures and expectations of a multiyear ZIRP, rates in the prime space pushed lower still. Further tightening the supply side of the equation in the money markets, year-to-date investment-grade corporate debt in excess of $1.3 trillion has been issued in the term markets. And with corporate credit fundamentals remaining favorable, credit spreads ground tighter and are keeping the yield curve relatively flat.

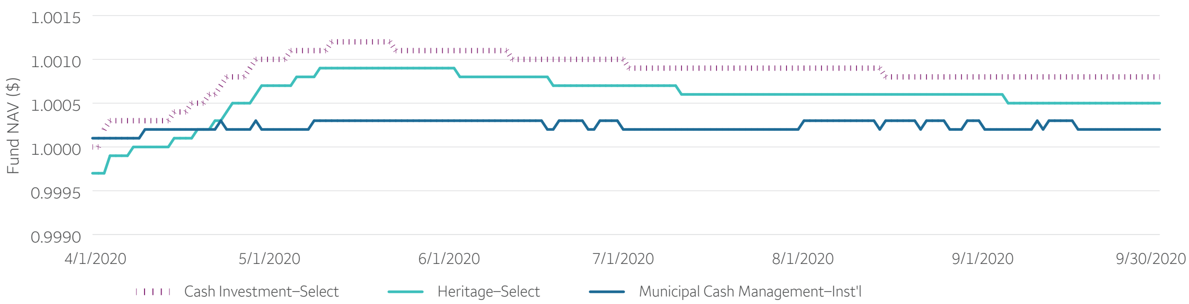
Money market yield curves, as of 9/30/2020



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

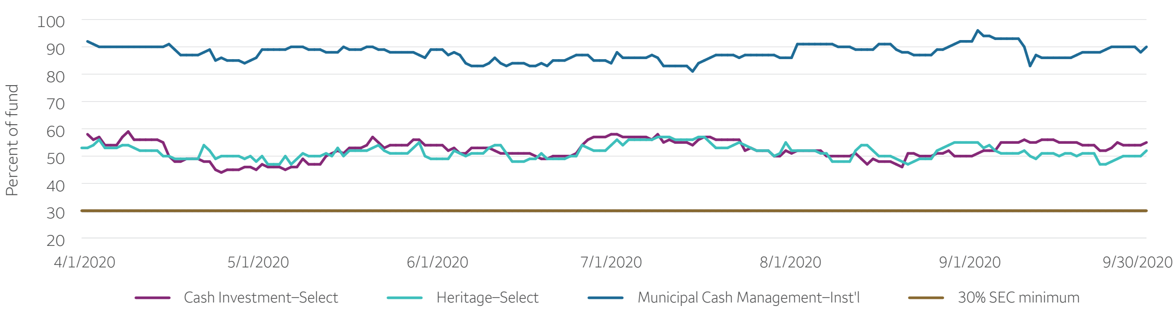
Our investment strategy emphasizes a high level of liquidity and extending maturities where appropriate to capture yield pickup. The additional liquidity buffer enhances our ability to meet the liquidity needs of our investors and helps stabilize net asset value (NAV) volatility while allowing us to opportunistically add securities to lock in potentially 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 rose modestly as corporate tax dates and quarter-end pressures weighed on the market and municipal money market funds continued to see outflows. Demand for variable-rate demand notes (VRDNs)[2] and tender option bonds (TOBs)[3] in the overnight and weekly space remained generally stable although the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[4] inched higher to 0.11% at month-end, up from 0.09% the previous month. Municipal money market funds experienced roughly $6.4 billion in outflows, according to Crane Data. Investors have continued to seek higher-yielding alternatives with money market rates at rock-bottom levels due to the Fed's accommodative monetary policy.

Further out on the curve, yields on high-grade paper in the one-year space remained range-bound, finishing out the month at 0.21%. Supply in the long end continues to be well absorbed in the primary market. During the month, we continued to focus our purchases primarily in VRDNs and TOBs with daily and weekly puts. Accordingly, weekly liquidity in our municipal portfolios remains comfortably high in the 75%–90% range. However, with increased supply on the long end of the curve, we have continued to be opportunistic in adding exposures to high-quality names in the six-month to one-year part of the curve.

On the horizon

The money markets are entering fall in a somnolent state, which is a welcome respite from this spring's dislocation. It remains to be seen if this is a semi-permanent condition as we await some sort of resolution to the COVID-19 pandemic and rates stay at the zero lower bound for the foreseeable future or if this is just the calm before the storm. Current events here, and across the pond, have the potential to induce some short-term volatility in the money market space in the fourth quarter, and certainly if the markets' expectations around the election are not met, we may see a bit of a risk-off situation, similar to that experienced in 2016. If past experience teaches us anything, such episodes usually have resulted in a liquidity build on the very short end of the curve, with weighted average maturities (WAMs)[4] and weighted average lives (WALs)[5] shrinking and credit spreads grinding even tighter. As we progress through the quarter, we will be keeping a close eye on developments to ensure portfolios are properly positioned to weather current events.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	0.06	0.08	–	–	–	–	–
Fed reverse repo rate	0.00	–	–	–	–	–	–
U.S. Treasury bills	–	–	0.07	0.08	0.09	0.10	0.11
Agency discount notes	0.02	0.02	0.03	0.06	0.07	0.08	0.06
LIBOR	0.08	0.10	0.15	0.19	0.23	0.26	0.36
Asset-backed commercial paper	0.11	0.11	0.14	0.18	0.21	0.26	–
Dealer commercial paper	0.05	0.04	0.07	0.09	0.10	0.14	–
Municipals	0.13	0.11	0.12	0.13	0.14	0.17	0.21

Sources: Bloomberg L.P. and Wells Capital Management Inc.
Past performance is no guarantee of future results.

Wells Fargo Fund	7-day current yield
Cash Investment MMF*–Select	0.14%
Heritage MMF*–Select	0.14%
Municipal Cash Management MMF*–Inst'l	0.03%
Government MMF**–Select	0.05%
Treasury Plus MMF**–Select	0.04%
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 0.03%, 0.04%, -0.11%, -0.03%, -0.04%, and -0.04%, 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. The Personal Consumption Expenditures (PCE) Index is the primary measure of consumer spending on goods and services in the U.S. economy. It accounts for about two-thirds of domestic final spending and is part of the personal income report issued by the Bureau of Economic Analysis of the Department of Commerce. You cannot invest directly in an index.

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.

4. Weighted average maturity (WAM): An average of the effective maturities of all securities held in a 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.

5. Weighted average life (WAL): An average of the final maturities of all securities held in a portfolio, weighted by their 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. The calculation of WAL allows for the maturities of certain securities with demand features to be shortened but, unlike the calculation of WAM, does not allow shortening of the maturities of certain securities with periodic interest rate resets. WAL is a way to measure a fund's potential sensitivity to credit spread changes. WAL 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.

***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 September 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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