WELLS FARGO Asset Management

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PORTFOLIO MANAGER COMMENTARY

Overview, strategy, and outlook

As of November 30, 2020

Money market overview

On November 30, the Federal Reserve (Fed) reiterated its commitment to the smooth functioning of capital markets as well as supporting the nation's economic recovery from the ravages wrought by the pandemic. The Fed announced an extension to March 31, 2021, of several lending facilities that were set to expire at the end of the current year: the Commercial Paper Funding Facility (CPFF), the Money Market Mutual Fund Liquidity Facility (MMLF), the Primary Dealer Credit Facility, and the Paycheck Protection Program Liquidity Facility. Of particular interest to participants in our area of the yield curve, the CPFF and MMLF were instrumental in helping alleviate the liquidity constraints and market volatility associated with the market dislocations we experienced in March. Though the use of the CPFF and MMLF is relatively low at this point, the Fed notes that these facilities "support market functioning and enhanc[e] the flow of credit to the economy," and their continued availability will help spur our economic recovery. With that in mind, should we continue to be gripped by the pandemic going into early spring 2021, we may see the expiration of these facilities delayed for another quarter.

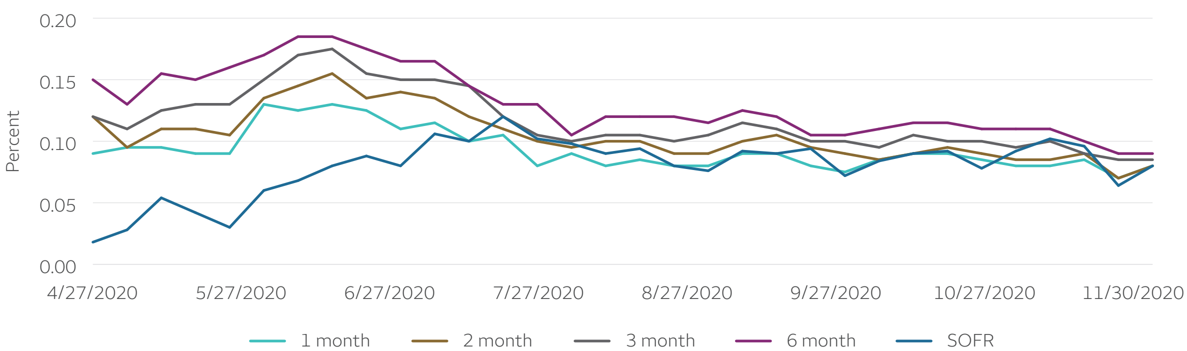
Sector views

U.S. government sector

Clarity arrived (mostly, anyway) on the political front, as the U.S. looks to have a divided government for the next two years. Whatever else that means for the broader financial markets, the economy, and the nation, for the money markets, it likely means much less fiscal support is on the way. Investors had hoped for a little near-term boost to the economy, partly funded by Treasury bills (T-bills), providing a chance to lock in higher yields. With the passage of time, however, hopes dissipated, as ethereal things do. The apparent election outcome will, in fact, probably yield the least fiscal support of any of the possibilities. Had he won reelection, Mr. Trump may have used the power of Twitter to nudge the Senate into a larger package, which the House likely would have welcomed, while a *blue wave* would have enabled Congress to assemble a large fiscal bill. The apparent postelection configuration will let Mr. McConnell dust off his well-worn manual on how to say "no."

We're left with government money market supply and demand growing more imbalanced by the day. Demand is rising as banking system reserves grow, both from the Fed's continued securities purchases and from the gradual reduction in the Treasury's cash balance. Supply is moving the other way, with steady reductions in the amount of T-bills outstanding set to continue for the foreseeable future. This reduction in supply results from both the Treasury's effort to shrink the cash balance as well as its effort to change the government's funding mix to longer maturities. We've already seen some postelection impact, as the yield on 6-month T-bills has fallen from around 11 basis points (bps)[1] to 9 bps, while overnight repo and 1- and 2-month T-bills continue to yield around 8 bps, flattening things even further, as shown in the chart below. Short-term investors feel about supply and demand the way Herb Brooks did about his struggling Olympic hockey team when he said to them, *"You're playing worse and worse every day and right now you're playing like it's next month."*

Secured overnight financing rate (SOFR) and T-bill auction yields



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

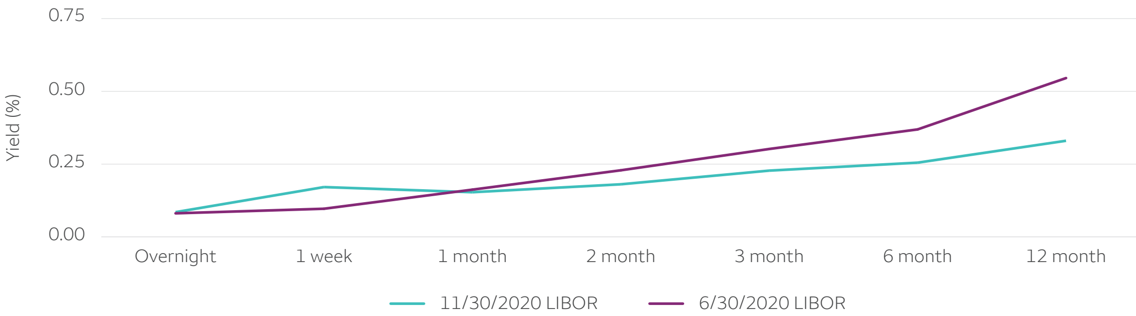
Prime sector

The Federal Open Market Committee (FOMC) meeting on November 5 was a bit overshadowed by the unsettled election. No policy action was anticipated, and none was taken, leaving the target federal funds rate range unchanged at 0.00% to 0.25%. At his post-meeting press conference, Chair Powell emphasized the considerable downside risks to the economy from the pandemic and reaffirmed the Fed's commitment to provide stimulus, noting that "what we see up to the present, really, is continued growth, continued expansion, but at a gradually moderating pace." Powell also mentioned that committee members had discussed the possibility of making changes to the parameters of the asset-purchase program, including lengthening the tenors of maturities purchased. Finally, he highlighted the changes to the Summary of Economic Projections (SEP), which are forthcoming: Going forward, the entire SEP will be released at the same time as the meeting statement and will include charts showing how participants' assessments of the balance of risks and level of uncertainty have changed over time.

The FOMC's meeting minutes, which were released on November 25, showed that Fed members favorably discussed outcome-based forward guidance, relying on reaching thresholds for economic data before changing quantitative easing accordingly. The minutes also showed that members thought it was important to taper quantitative easing before increasing overnight rates.

As the FOMC keeps its proverbial foot on the gas by maintaining its target rate near zero and supports economic growth through its buyback program while awaiting any meaningful fiscal stimulus, market yields in general have fallen. Additionally, with the supply of product continuing to be light and the FOMC on hold, the money market yield curve has flattened. This can be seen in the London Interbank Offered Rate (LIBOR) chart on the next page, which shows that the relationship between short-dated and longer-dated maturities has narrowed dramatically since June.

LIBOR yield curves as of 11/30/2020

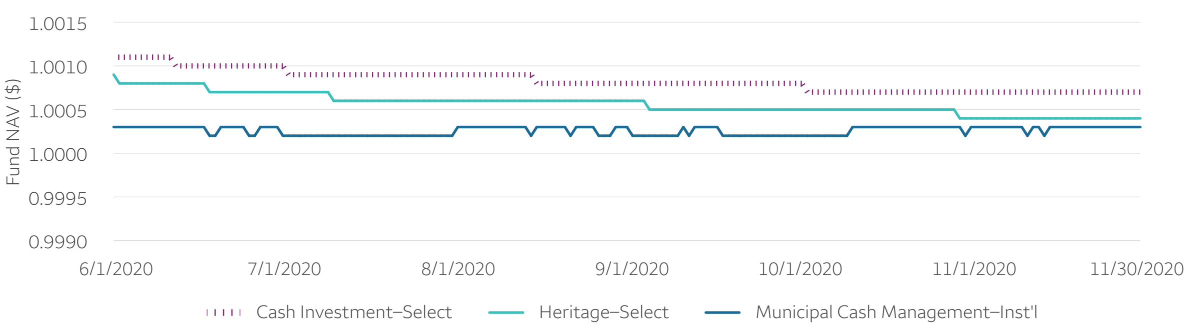


Sources: Bloomberg L.P. and Wells Fargo Asset Management

The supply and demand imbalance we've spoken of previously this year continues, with less supply in the short end as issuers extend issuance with rates at record lows. Non-seasonally adjusted commercial paper outstanding ticked up slightly in November, to $991 billion as of November 25, but outstandings are down from $1,045 billion at year-end 2019. Consequently, with rates low and no action expected from the Fed, investors have lengthened maturities. Low rates and less short supply might mean that if there are year-end funding pressures, they will be fleeting.

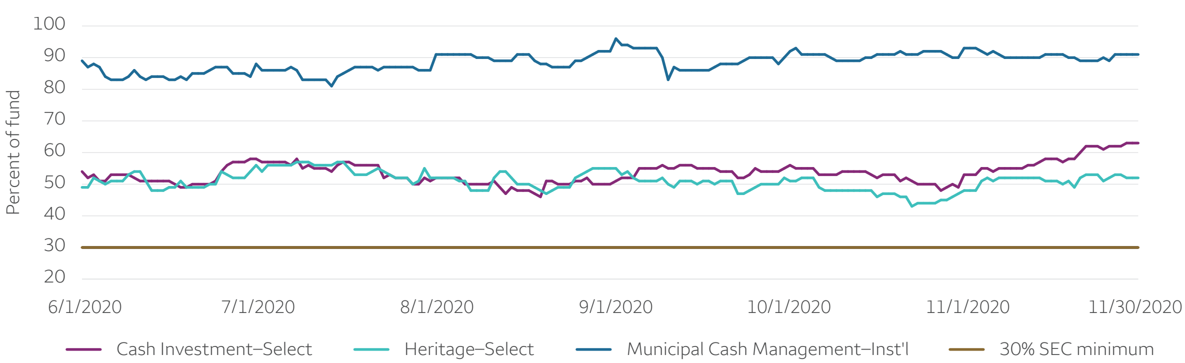
We tend to take a conservative approach when constructing our portfolios and favor keeping excess liquidity over the stated regulatory requirements, running shorter weighted average maturities and looking to extend if the opportunity offers a favorable risk/reward proposition. This additional liquidity 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

The municipal money market curve steepened slightly during November as rates on the short end remained mostly unchanged and yields on longer-dated securities drifted higher. Demand for variable-rate demand notes (VRDNs)[2] and tender option bonds (TOBs)[3] in the overnight and weekly space remained solid with the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[4] resetting at 0.11% for four straight weeks, down from 0.12% at the end of October. Further out on the curve, yields on high-grade paper in the one-year space rose to approximately 0.28%, up from 0.22% at the end of the previous month.

Municipal money market funds continued to experience consistent outflows, with Crane Data indicating roughly $2.4 billion in redemptions. Low absolute levels on money market investments have incentivized many short-term investors to seek higher-yielding cash-like alternatives. Accordingly, we continued to focus our purchases primarily in VRDNs and TOBs, with daily and weekly puts in order to ensure high levels of weekly liquidity in our funds, particularly in anticipation of potential volatility surrounding the U.S. election. Additionally, we have continued to opportunistically add exposure to high-grade fixed-rate securities in the one-month to six-month part of the curve but have allowed our weighted average maturities to drift lower overall.

On the horizon

On the regulatory front, the ICE Benchmark Administrator (IBA) announced on November 30 that it would open a comment period to discuss its intention to discontinue publishing 1-week and 2-month LIBOR rates after December 31, 2021, with an eye toward sunsetting publication of the key benchmark tenors of 1-month, 3-month, 6-month, and 1-year LIBOR settings on June 30, 2023. This is, in effect, an extension of the 2021 LIBOR cessation date targeted by the Financial Conduct Authority (FCA) since 2017. On November 18, the FCA announced its intention of ceasing to publish Interbank Offered Rates denominated in pounds sterling, euros, yen, and Swiss francs; the notable absence of a resolution for the USD LIBORs sparked speculation that perhaps behind-the-scenes discussions between regulators and other interested parties were ongoing and that a separate solution could be in the works. And here it is.

The stated purpose of this extension is to permit the vast majority of legacy contracts to mature prior to benchmark conversion away from LIBOR to an alternative benchmark. Taxable money market fund investors are likely to see few changes in the investable landscape going forward. Issuance of floating-rate government agency obligations is almost exclusively SOFR-based at this point. For investors in prime instruments, eligible securities are just now entering the 13-month maximum maturity specified in rule 2a-7, and supervisory guidance from the banking regulators urges banks to cease offering LIBOR-based securities as soon as practicable and in any event by December 31, 2021. While this extension would still need the formal approval of the FCA in order to come into effect, it did issue a press release expressing preliminary support. This development also has received support from U.S. regulators, government-sponsored enterprise issuers, and the public-private partnership Alternative Reference Rates Committee, making it more likely that this will, in fact, become the new industry transition timeline.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	0.08	0.08	–	–	–	–	–
Fed reverse repo rate	0.00	–	–	–	–	–	–
U.S. Treasury bills	–	–	0.07	0.07	0.08	0.09	0.10
Agency discount notes	0.01	0.04	0.06	0.07	0.05	0.05	0.06
LIBOR	0.09	0.17	0.15	0.18	0.23	0.26	0.33
Asset-backed commercial paper	0.11	0.12	0.15	0.19	0.23	0.34	–
Dealer commercial paper	0.09	0.09	0.07	0.13	0.15	0.20	–
Municipals	0.12	0.11	0.12	0.13	0.15	0.18	0.28

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	0.09%
Heritage MMF*–Select	0.10%
Municipal Cash Management MMF*–Inst'l	0.01%
Government MMF**–Select	0.02%
Treasury Plus MMF**–Select	0.01%
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%, 0.00%, -0.18%, -0.06%, -0.07%, and -0.08%, 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. 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.

**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.

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