Wells Fargo Money Market Funds

WELLS FARGO Asset Management

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PORTFOLIO MANAGER COMMENTARY

Overview, strategy, and outlook

As of January 31, 2021

Sector views

U.S. government sector

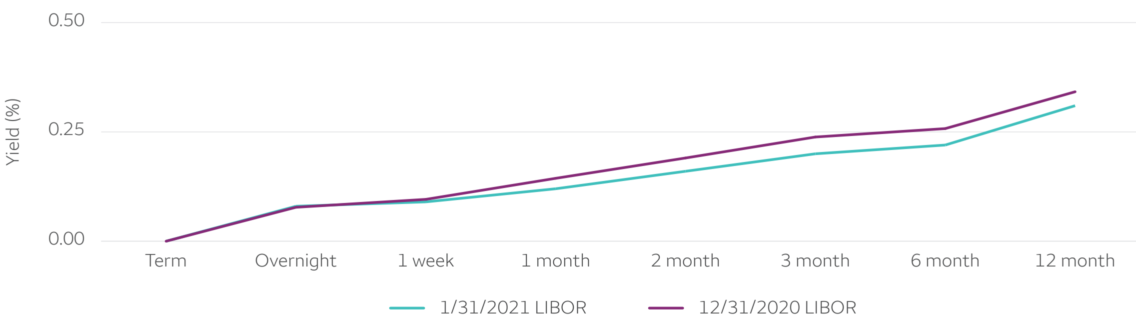
Market-making news has sometimes come from Jackson Hole or Brussels or, of course, New York or Washington, but having it come from Georgia was a first. The Democratic sweep of the Georgia Senate contests on January 5 has resulted in probably the softest unified government ever, with the Senate tied and the House narrowly Democratic. Fans of a divided government may consider this a not-distasteful runner-up: unified enough to easily staff up the government, which is important as we try to get through the pandemic, but not unified enough to pass significant, controversial, or strictly partisan legislation. Money market investors, looking anxiously ahead to a year with expanding demand and diminishing supply, one where opportunities to earn a decent yield get harder to find, see the new government as at least unified enough to allow for some additional spending, which should help stabilize the supply picture.

Money markets had settled into well-defined trading ranges in the second half of 2020, but the veneer of stability cracked for the first time as they slipped to lower yields in late January, led by the repo market. The Secured Overnight Financing Rate (SOFR), the Federal Reserve's (Fed's) most comprehensive repo market index, averaged between 0.082% and 0.087% each month from August to December 2020. In January, it averaged 0.071%, and more ominously in the last half of January the average was 0.052%. Because the repo market is as transparent as mud, it's hard to say exactly what caused the move and whether it will stick. What we can say is that as reserves grow — both through the Fed's ongoing $120-billion-per-month quantitative easing securities purchases as well as the U.S. Treasury spending down its cash balance at the Fed — there will be ever more cash looking for a home. However, we also know that reserves have a welcoming home at the Fed, where they earn 0.10% — the Interest on Excess Reserves (IOER) rate the Fed pays — in unlimited size, and nothing that can be invested there should be placed elsewhere at lower rates. Given that, and since reserves were little changed in January, all we can say for sure right now is that cash unrelated to banking reserves likely drove repo rates lower. Treasury bill yields followed repos lower, tightening by 1 to 2 basis points (bps; 100 bps equal 1.00%). Their near-term fate will be tied to the repo market as well.

Prime sector

January is a notoriously slow month in the prime money market space. Many issuers get squared away on funding before the end of the year, with much of that issuance maturing farther into the new year. Consequently, issuers aren't actively seeking term funding. At the same time, investors who built up liquidity for possible year-end cash needs are now searching for investments once the calendar turns. While we often see this type of supply/demand imbalance push rates lower in January, couple that this year with a decreasing yield environment and pressure on repo rates to find that rates available in the marketplace are restrained, to say the least. London Interbank Offered Rate (LIBOR) fixings themselves are down 2 to 3 bps across the curve month over month, as demonstrated in the chart below. In addition, credit spreads have compressed so that securities that could be purchased last month at a yield above the corresponding LIBOR level are now pricing at a yield at or below the comparable LIBOR. With the fall in repo levels exacerbating the decline in very short maturity paper, the yields on time deposits and short commercial paper have fallen in lockstep with the repo decline.

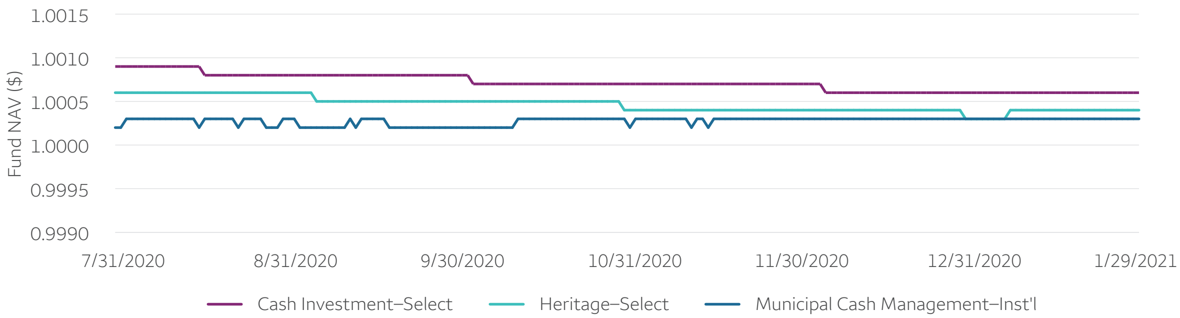
LIBOR yield curves



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

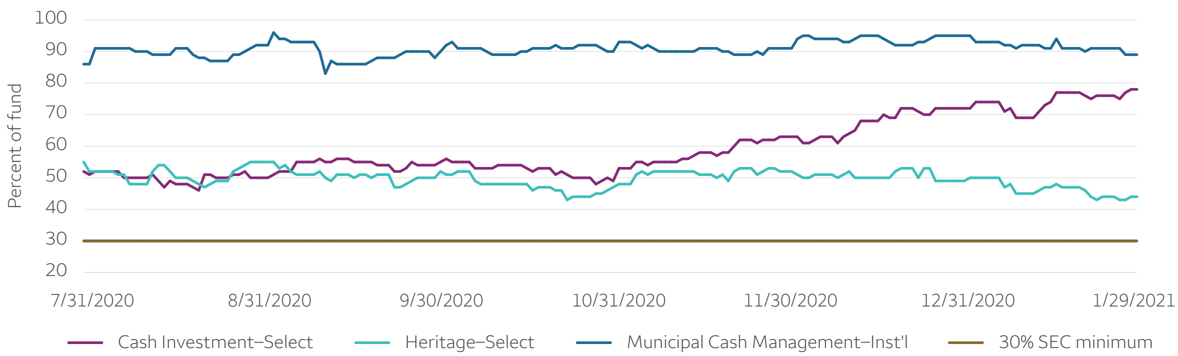
At the conclusion of the January Federal Open Market Committee (FOMC) meeting, Fed Chair Powell again emphasized the commitment to keep rates unchanged and asset purchases going until progress is made in employment and economic growth. The FOMC noted, "the pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic." The FOMC is expected to maintain its target range at the current level of 0.00% to 0.25% at least through 2022. This naturally leads us to conclude that rates in the prime space will continue to trade at or near current levels for the foreseeable future. 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 when the opportunity arises.

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

Yields in the municipal money market space continued to grind lower as strong technicals resulted in a heavy supply/demand imbalance to start the year. Demand for variable-rate demand notes (VRDNs)[1] and tender option bonds (TOBs)[2] remained exceptionally strong, resulting in almost nonexistent secondary inventory for long stretches of the month. As a result, the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[3] continued to notch downward on a weekly basis, falling from 0.09% at year-end to 0.04% at the end of January. Further out on the curve, yields on high-grade paper in the one-year space fell from 0.22% to 0.15%, with strong inflows into both municipal bond and money market funds during the month adding support to the market.

During the month, we continued to focus our purchases primarily in VRDNs and TOBs with daily and weekly puts in order to emphasize principal preservation and fund liquidity. As FOMC interest rate policy has resulted in extremely low absolute levels in the municipal money market space, we have remained highly selective in deploying cash for investments further out on the curve. Accordingly, we have targeted our term investments in liquid high-grade names due to the asymmetrical risks presented by the flat municipal money market yield curve.

On the horizon

The February monthly commentary is traditionally time for our annual roundup of the year in credit, and this year our focus piece for next month will be no exception. We will examine credit trends for the past year and focus on timely, sector-specific topics in the money markets. We will return just in time for tax day in early April with our market commentary for March.

Rates for sample investment instruments—current month-end % (January 2021)

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	0.04	0.05	–	–	–	–	–
Fed reverse repo rate	0.00	–	–	–	–	–	–
U.S. Treasury bills	–	–	0.04	0.05	0.06	0.07	0.08
Agency discount notes	0.08	0.04	0.04	0.04	0.04	0.06	0.02
LIBOR	0.08	0.09	0.12	0.16	0.20	0.22	0.31
Asset-backed commercial paper	0.10	0.12	0.14	0.15	0.16	0.23	–
Dealer commercial paper	0.05	0.06	0.07	0.10	0.11	0.10	–
Municipals	0.02	0.04	0.05	0.06	0.06	0.08	0.15

Sources: Bloomberg L.P. and Wells Capital Management

Wells Fargo Fund	7-day current yield
Cash Investment MMF*–Select	0.02%
Heritage MMF*–Select	0.08%
Municipal Cash Management MMF*–Inst'l	0.01%
Government MMF**–Select	0.03%
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. The manager may also voluntarily waive or reimburse additional fees and expenses, and such voluntary waivers may be discontinued or modified at any time without notice. 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 -0.10%, -0.02%, -0.20%, -0.09%, -0.10%, and -0.09%, 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 January 31, 2021, 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 or the markets generally 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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