Wells Fargo Money Market Funds

Contributing authors

Jeffrey L. Weaver
Head of Money Funds and Short Duration Strategies
415-396-4758
jeff.weaver@wellsfargo.com

Laurie R. White
Managing Director and Senior Fund Manager, Taxable Money Funds
612-667-4275
laurie.r.white@wellsfargo.com

Michael C. Bird
Senior Fund Manager, Taxable Money Funds
612-667-6529
michael.c.bird@wellsfargo.com

James C. Randazzo
Senior Fund Manager, Municipal Money Markets
704-374-3086
jrandazzo@wellsfargo.com

Madeleine M. Gish
Senior Fund Manager, Taxable Money Funds
415-396-2668
madeleine.gish@wellsfargo.com

John R. Kelly
Senior Fund Manager, Taxable Money Funds
612-667-2045
kellyjr@wellsfargo.com

Daniel J. Tronstad
Senior Fund Manager, Taxable Money Funds
612-667-7647
daniel.j.tronstad@wellsfargo.com

WELLS FARGO Asset Management

PORTFOLIO MANAGER COMMENTARY

Overview, strategy, and outlook

As of June 30, 2021

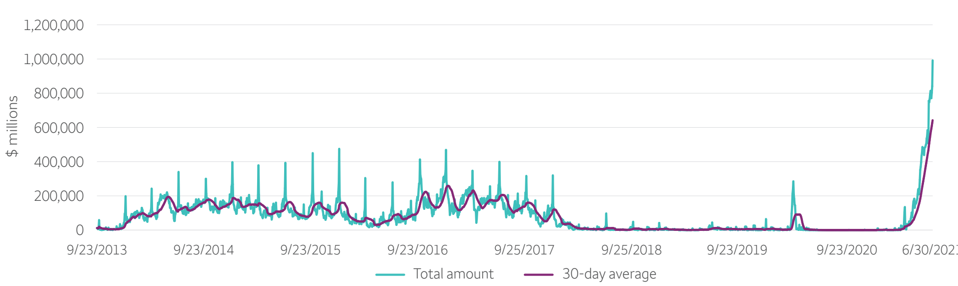
Money market sector views

U.S. government sector

The hawkish lean that came out of the mid-June Federal Reserve (Fed) meeting, discussed in greater detail in the prime section below, drew a lot of attention, but the result that was least important to most observers was the most important to the money markets: the Fed's 5-basis-point (bp; 100 bps equal 1.00%) tweak higher to its administered rates. The Fed moved its reverse repurchase agreement (RRP) rate from 0.00% to 0.05% and its interest on excess reserves rate from 0.10% to 0.15%. In the process, it threw a lifeline to short-term investors who were faced with investing more and more of their cash at a zero yield.

We had noted the increasingly dire conditions in the money markets in our past few commentaries, with Treasury bill (T-bill) supply falling, the Treasury's cash balance shrinking, and usage of the Fed's RRP facility leaping to new records each week. In the previous period of regular RRP usage from 2013 to 2018, during which rates were first set at zero before limping ahead in a gentle liftoff, usage rarely exceeded $200 billion per day except for quarter-end reporting dates, which saw bumps as high as $474 billion. Before May 2021, RRP usage had topped $400 billion only four times, as shown in the chart below. In June 2021, the lowest amount taken was $438 billion on June 3, the average for the month was $642 billion, and usage peaked at $992 billion on June 30. The vast sums placed with the Fed through the RRP represent the excess of demand over supply in the space and bode ill for the near-term outlook. The extra cash waiting to be deployed will be quickly put to work on anything that yields more than 0.05%, making 0.05% not just the Fed's floor but also the general level for short-term government investments. To summarize, while the bad news is that rates are pinned to the RRP level, the good news is they're pinned at 0.05% instead of zero. Call the outlook "dire plus 5 bps."

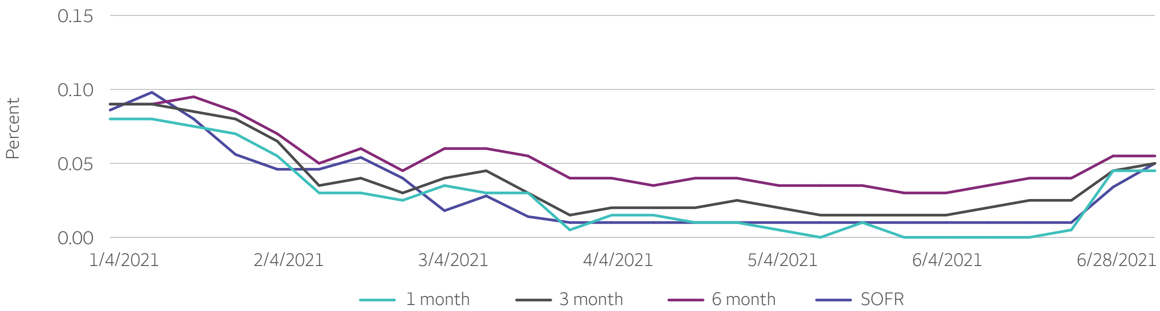
Fed RRP volume



Sources: Federal Reserve and Bloomberg L.P.

T-bill yields rose to reflect the Fed's move but not quite by the full 5 bps. As shown in the following chart, yields on shorter-maturity T-bills moved the most as yields converged around the 0.05% level as discussed above.

Secured Overnight Financing Rate (SOFR) and T-bill auction yields



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

Prime sector

The main takeaway from the June Federal Open Market Committee (FOMC) meeting is that the Fed is on hold and will continue its very accommodative policy stance for at least the near future. But, the meeting was decidedly not run-of-the-mill. There was "talking about talking about" and several more dots expecting liftoff, if not soon, at least sooner than before. Here are some details gleaned from the meeting statement, summary of economic projections (SEP or dot plot), Fed Chair Powell's press conference after the meeting, and industry strategists.

The SEP showed a fairly big change in comparison with expectations at the March FOMC meeting. This month, the median-projected path of the federal funds rate shows two hikes expected by the end of 2023, while the median path from the March meeting showed zero hikes in 2023. The actual dots now have 7 (of 18) members expecting one hike in 2022. While Chair Powell emphasized again that the SEP is neither a forecast nor a plan, just simply the results of surveying FOMC members, we walk away with the idea that more members expect economic conditions that are consistent with substantial further progress toward their objectives of full employment and price stability goals a bit sooner than was previously expected.

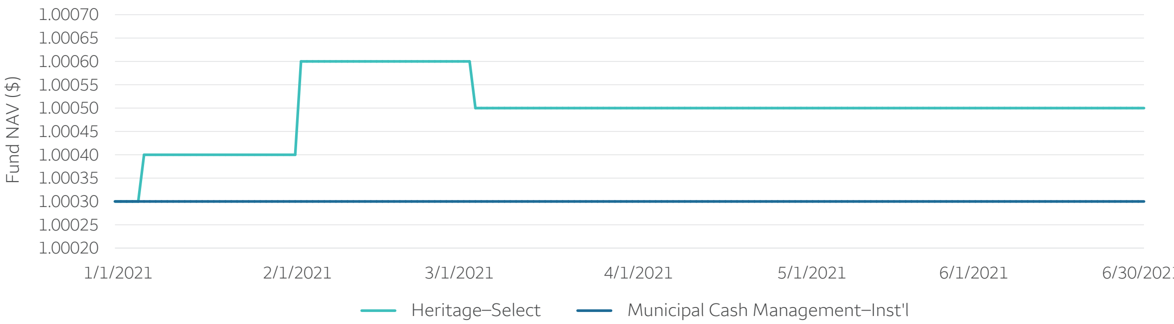
The Fed announced no changes to the current level of monthly asset purchases of $80 billion in U.S. Treasuries and $40 billion in mortgage-backed securities. Chair Powell said it will be "appropriate to consider announcing a plan for reducing our asset purchases at a future meeting" should the data allow. And he said that we can consider this the meeting where they talked about talking about tapering. But, please, let's retire that phrase.

Temporarily elevated inflation measures are expected to ease as the economy continues to recover from the effects of COVID-19 lockdowns and job growth picks up in the coming months. The Fed's meeting statement wording changed from "with inflation running persistently below" to "with inflation having run persistently below" the longer-run goal of 2%, the FOMC will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%.

The big news for short-end participants was the rate adjustment to the administered rates discussed in the U.S. government sector views. The adjustment lifted rates on prime sector instruments maturing from overnight to one week by 3 bps to 4 bps but had less impact further out the curve, with six-month and one-year yields about 2 bps higher than just prior to the meeting.

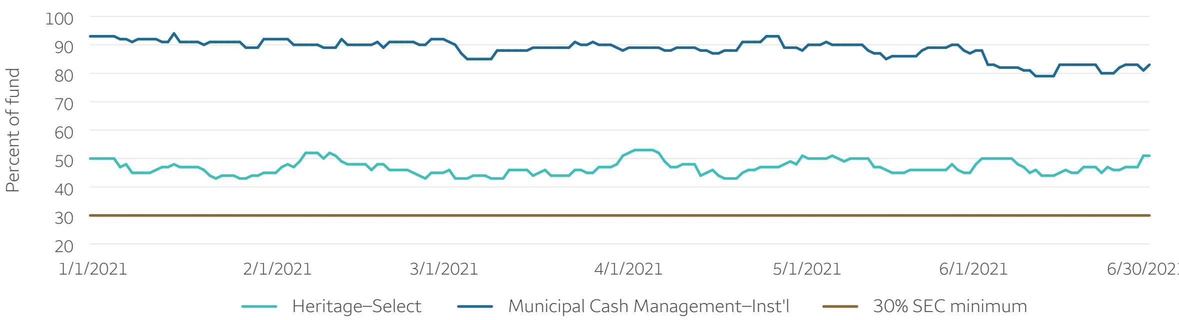
While we are keeping excess liquidity over the stated regulatory requirements and running shorter weighted average maturities, we are actively seeking opportunities to extend if the opportunity offers a favorable risk/reward proposition. In addition to allowing us to selectively add securities to lock in higher yields when the opportunity arises, this higher liquidity buffer also enhances our ability to meet the liquidity needs of our investors and helps stabilize net asset value (NAV) volatility.

Wells Fargo floating net asset value (FNAV) money market fund NAVs



Source: Wells Fargo Funds

FNAV money market funds weekly liquid assets



Source: Wells Fargo Funds

Municipal sector

Strong seasonal supply and demand imbalances continued to pressure yields in the municipal money market space during the month of June. Municipal money market funds bucked the trend of recent outflows by raking in roughly $1 billion during the month. Combined with steady inflows into municipal bond funds, the amount of cash in the market easily overwhelmed supply. Demand for variable-rate demand notes[1] and tender option bonds[2] remained steady with the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[3] sitting at 0.03% for the entire month. Further out on the curve, yields on high-grade paper in the one-year space rose slightly to 0.11% from 0.10% in May.

During the month, we continued to favor high-grade commercial paper in the one-month to two-month space as well as cash flow notes in the six-month to one-year space. As we enter *note season*, we expect increased opportunity to participate in highly liquid high-grade issues. However, we will continue to remain highly selective in investing out on the curve due to low absolute levels and a relatively flat municipal yield curve.

On the horizon

Summer seems to be in full swing this year, especially compared with last year. We will be taking the next month off from our commentary duties but will be back after Labor Day with more breathtaking insights. In the meantime, enjoy the summer!

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

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	0.05	–	–	–	–	–	–
U.S. Treasury bills	–	–	0.03	0.04	0.04	0.04	0.06
Agency discount notes	0.01	0.03	0.03	0.03	0.03	0.03	0.03
LIBOR	0.09	0.09	0.10	0.13	0.15	0.16	0.25
Asset-backed commercial paper	0.05	0.06	0.06	0.11	0.13	0.15	–
Dealer commercial paper	0.03	0.02	0.04	0.05	0.06	0.10	–
Municipals	0.03	0.03	0.04	0.06	0.06	0.07	0.11

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

Wells Fargo Fund	7-day current yield
Heritage MMF*–Select	0.03%
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, 2022, 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 and/or its affiliates may also voluntarily waive all or a portion of any fees to which they are entitled and/or reimburse certain expenses as they may determine from time to time. Without these reductions, the seven-day current yield for the Select Class of the Heritage Money Market Fund, Government Money Market Fund, and Treasury Plus Money Market Fund, and for the Institutional Class of the Municipal Cash Management Money Market Fund and 100% Treasury Money Market Fund would have been -0.05%, -0.10%, -0.12%, -0.20%, and -0.17%, respectively. 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 June 30, 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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