WELLS FARGO Asset Management

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PORTFOLIO MANAGER COMMENTARY

Overview, strategy, and outlook

As of August 31, 2021

Sector views

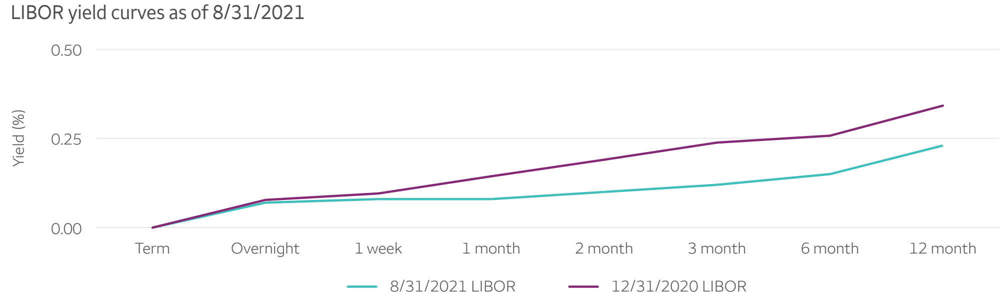
Prime sector

At the conclusion of its July meeting, the Federal Open Market Committee (FOMC) announced no changes to monetary policy or the asset purchase program. The FOMC left the target rate range unchanged at 0.00% to 0.25% and intends to maintain its monthly asset purchases at $120 billion. The corresponding statement offered little new information, merely reiterating that progress has been made toward its dual mandate and it would likely be some time until the economy had made substantial progress toward the Federal Reserve's (Fed's) maximum employment and price-stability goals in order to modify guidance of asset purchases.

In August, after a strong employment report and some corresponding hawkish Fed speak, all eyes were on the Jackson Hole Symposium for clarification on the timing of reducing asset purchases and information on the future path of rates. As expected, Fed Chair Powell was balanced in his assessment of where the economy stands and the reaction of the FOMC. He acknowledged the strong employment situation while highlighting downside economic risks associated with the Delta variant in a way that keeps the asset purchase modification optionality an open discussion. He also highlighted that if the "economy evolved broadly as anticipated, it could be appropriate to start reducing asset purchases this year." In regard to rate movement, Chair Powell remained on the dovish side as he discussed that unemployment is still too high and that recent inflation spikes will prove to be temporary. It appears the FOMC is focused on telegraphing asset purchase tapering at an upcoming meeting and tabling rate discussion until it is forced to by strong, sustainable economic growth and inflation.

With the FOMC firmly on hold and the market awash in excess cash from monetary and fiscal stimulus, prime money market yields continued to tread water in August. The one-month versus three-month LIBOR spread entered the month of August +3.41 basis points (bps; 100 bps equal 1.00%) and ended the month at +3.71 bps. This backdrop is favorable for risk assets as front-end rates continue to be predictable and maintained at an advantageous level for economic growth.

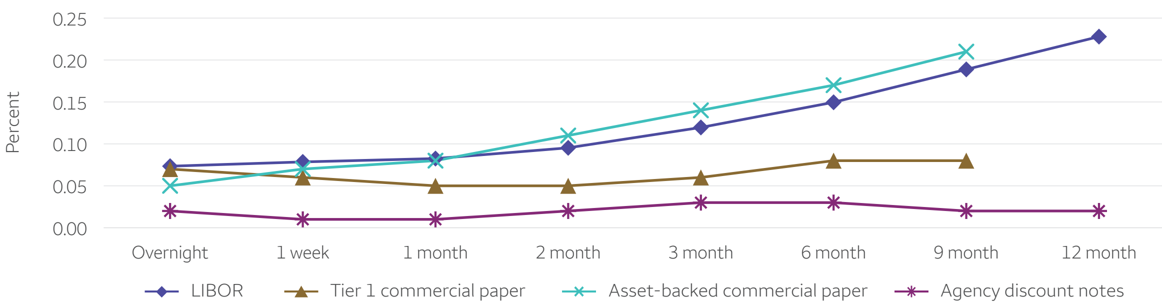
LIBOR yield curves as of 8/31/2021



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

Government yields across the curve have been near zero, or now 0.05%, for quite some time (see government sector commentary below). Except for the maturities around the debt ceiling time frame that have seen yields spike a couple of basis points, in general, prime assets continue to marginally out-yield government assets. The money market curves chart below illustrates that while there is still a positive-sloping yield curve offering potentially attractive opportunities versus government alternatives, this yield advantage has compressed. The current pickup from extending maturities from one month to three months is roughly 4 bps and yields about 7 bps more than the government floor. In addition, the pickup from extending maturities from one month to six months has narrowed to 7 bps this month and yields approximately 10 bps more than the government floor.

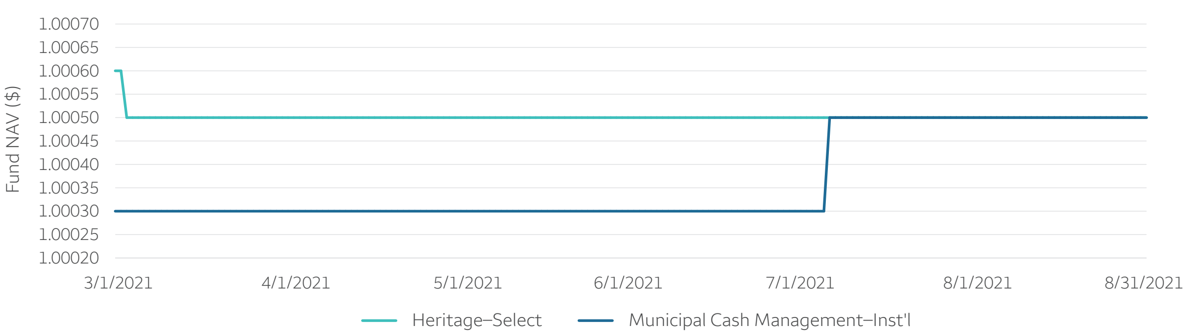
Money market yield curves as of 8/31/2021



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

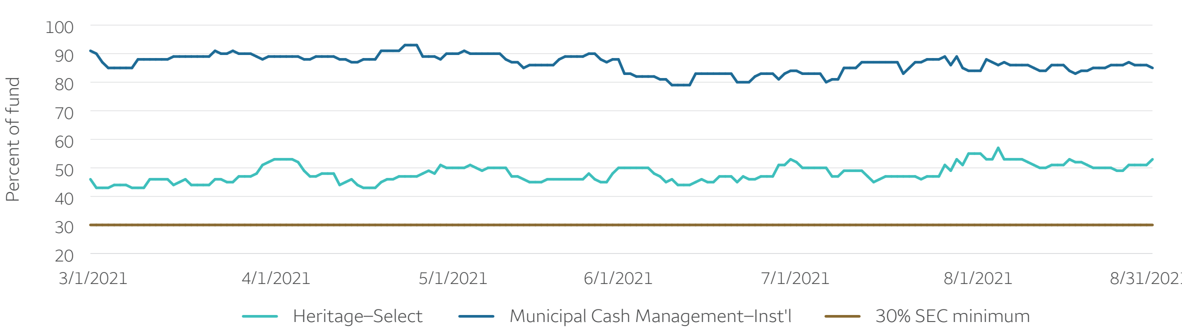
While we are keeping excess liquidity over the stated regulatory requirements and running shorter weighted average maturities, we are actively seeking opportunities to extend if the opportunity offers a favorable risk/reward proposition. In addition to allowing us to selectively add securities to lock 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

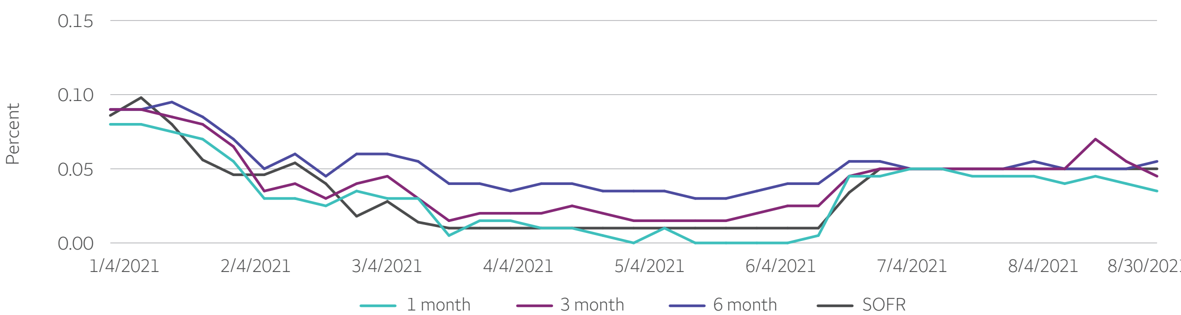


Source: Wells Fargo Funds

U.S. government sector

With the recent resolution of some structural uncertainties, the rough outlines of the government money markets are now in place for this current zero-interest-rate-policy episode. Wrinkles may pop up from time to time, such as the debt ceiling (more on that below), but generally speaking, the Fed's reverse repo program (RRP) rate of 0.05% exerts an immense gravitational pull on all short-term government rates, keeping them from straying too far in either direction. The RRP is a giant sponge sopping up the excess of cash over investable assets in the short-term space, and it has recently rather routinely taken in more than $1 trillion per day, a huge change from six or even three months ago. As long as that mismatch exists, reflecting as it does cash looking for a home with grass the least bit greener than the RRP's, rates on any similar asset will be hard pressed to rise much above 0.05%. On the flip side, with the vast majority of two big buyer groups—money market funds and government-sponsored entities—eligible to park cash in the RRP, demand for investments yielding less than 0.05%, while still present from other RRP-ineligible investors, is limited. Hence, 0.05% is the going rate until liftoff appears on the horizon. The general convergence of rates around 0.05% can be seen in the chart below.

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



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

The structural clarity mentioned above concerned three main developments. First, the Fed adjusted its RRP rate from 0.00% to 0.05% in June, buying itself a little breathing room above its interest rate floor at zero. Second, the extra cash the Treasury carried throughout the pandemic has been wound down, with the Treasury's General Account (TGA) completing a round trip from $400 billion to $1.8 trillion and back. The Treasury has necessarily overshot the drawdown and intends to eventually, once the debt ceiling has been addressed, carry a cash balance closer to $800 billion. And third, Treasury bill (T-bill) supply has declined by $901 billion this year, which has helped bring the TGA down and also shifted the government's funding burden from T-bills to Treasury coupons further out the curve.

Every few years, the front end of the yield curve gets to do the debt ceiling dance, and the band is currently warming up. For details on the debt ceiling's history and potential impacts on the money markets, please see our Debt Ceiling FAQs. Generally, the more divided the government, the greater the risk of a messy debt ceiling showdown. For example, the most disruptive confrontations in recent times occurred in 2011 and 2013, with a Republican House in conflict with a Democratic administration. But the general rule is not set in stone, as the last debt ceiling suspension was passed by a Democratic House and signed by a Republican president with nary a ripple in the water. Markets have begun to show a bit of unease, as T-bills maturing near the area of the calendar where the Treasury may run out of money—the perceived drop-dead date—have backed up in yield slightly, reflecting less interest in owning them. This was seen most notably in 3-month T-bill auctions, which yielded as high as 0.07% in mid-August. Perhaps the unease stems from the market's recognition that the government is barely undivided, with razor-thin Democratic margins in both houses of Congress. One way or another, whether it is raised or suspended again, the debt ceiling issue is likely to be resolved in the next few months, and the market can settle back into its 0.05% straightjacket. There may be a brief period of indigestion while the Treasury ramps its cash balance back up via T-bill issuance, but it seems like nothing the extra trillion dollars sitting in the RRP can't handle.

Municipal sector

The municipal money market space closed out the summer with continued supply and demand imbalances, which have been exacerbated by the highly accommodative FOMC monetary policy. Municipal money market funds experienced modest outflows during August, with the Crane Tax-Exempt Money Fund Index[1] falling to $99.9 billion. However, demand for variable-rate demand notes (VRDNs)[2] and tender option bonds (TOBs)[3] remained exceptionally strong as longer-term municipal bond funds continued to experience record-setting inflows for the year. The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[4] remained unchanged at 0.02% for the month.

Further out on the curve, yields on high-grade paper in the one-year space rose slightly to 0.09% from 0.08% in July. Investors in the short end of the curve had to contend with a significant drop in note issuance on a year-over-year basis. Issuers have had a reduced need to borrow in the cash flow note market as tax revenues have been generally better than expected and federal stimulus funds have bolstered the balance sheets of many municipalities. For example, the state of Texas, which is a consistent borrower in the note market and has issued between $5 billion and $8 billion in cash flow notes in each of the past few years, did not issue any notes this year. This left many buyers scrambling to find alternatives for maturing note proceeds at the end of the month. During the month, we continued to hold a high degree of liquidity in the form of VRDNs and TOBs with daily and weekly puts. We continued to remain highly selective in our term trades due to low absolute levels and a relatively flat municipal yield curve. Accordingly, we continued to focus on tax-exempt commercial paper in the one-month to three-month space.

On the horizon

The hint of tapering, possibly as soon as the last quarter of this year, might have been expected to buoy rates as the markets anticipated policy normalization and the prospect of rising interest rates as the Fed begins a tightening cycle. However, tapering talk has been tempered by a chorus of dovish statements issued by FOMC members. For the immediate and foreseeable future, the Fed intends to maintain its accommodative monetary policy, which has effectively tamped tightening expectations from market participants. This places us squarely back in the camp of the Fed messaging future courses of action at each meeting, signaling moves well in advance. Barring unforeseen crises roiling the financial waters, we believe the short end of the markets should experience relatively calm conditions and smooth sailing as we navigate our way to more normal economic (and global) conditions.

Rates for sample investment instruments — current month-end % (August 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	0.05	0.04	0.05	0.06
Agency discount notes	0.02	0.01	0.01	0.02	0.03	0.03	0.02
LIBOR	0.07	0.08	0.08	0.10	0.12	0.15	0.23
Asset-backed commercial paper	0.05	0.07	0.08	0.11	0.14	0.17	–
Dealer commercial paper	0.07	0.06	0.05	0.05	0.06	0.08	–
Municipals	0.01	0.02	0.03	0.04	0.04	0.05	0.09

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	0.04%
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 -0.07%, -0.10%, -0.11%, -0.22%, and -0.16%, 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. The Crane Tax Exempt Money Fund Index is a simple average of municipal or tax-exempt money market funds tracked by Crane Data (currently 185 funds). This index is published in the Crane Money Fund Intelligence newsletter, MFI XLS and MFI Daily products. Crane Data has been publishing information and indexes on money market funds since 2006. Visit www.cranedata.com for more information. 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.

**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, 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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