1. OVERVIEW AND PHILOSOPHY

Wells Fargo Asset Management (WFAM) has built our philosophy, policies, and processes around delivering on client and community expectations in a responsible and sustainable way. Environmental, social, governance (ESG), and other considerations that extend beyond simple financial statement analysis have been a core part of how our portfolio management teams evaluate investment opportunities for more than three decades.

We believe ESG information enables us to better understand and assess the investments we make. Our investment teams integrate material ESG considerations into their investment processes in ways that are consistent with their asset classes and strategies. Our commitment and experience with bottom-up issuer, market, and policy analysis is leveraged across the firm to identify risks and opportunities while providing clients with portfolios better aligned with their preferences on these issues. Incorporating ESG issues and serving as responsible stewards of the assets we manage ultimately leads to better investment outcomes for our clients.

WFAM integrates ESG research into our investment process as philosophically, we believe it contributes to our ability to manage risk more holistically and generate sustainable, long-term returns for our clients. We believe understanding the potential impact arising from ESG issues is an essential step to better understanding investment outcomes in a rapidly changing world. With our strong foundation in active management and over 500 investment professionals contributing deep research capabilities and investment expertise, we are well placed to identify and analyze material ESG issues. By considering ESG as an important element of investment performance, we are able to consider a broad range of relevant risk factors and generate returns as the market increasingly reacts, while aligning our investment outlook and strategies to the new norms of a changing world.

We are committed to the following principles that underlie our investment beliefs regarding ESG:

**Strategic client relationships:** Through a client-centric approach, we initiate conversations with our clients to better understand their needs and then seek to achieve alignment with their ESG objectives through the development and implementation of appropriate investment strategies.

**Independent investment teams:** We believe that an organization of independent and specialized investment teams is the optimal structure to achieve consistent outperformance and risk-adjusted returns. Our portfolio management and research teams integrate ESG considerations into their analyses and decision-making processes where they believe these issues may affect the success of an investment.
**Independent risk management:** As active managers, we believe that companies that perform poorly on ESG demonstrate higher downside risk that is unrewarded in achieving long-term risk adjusted returns. To empower our investment teams, we incorporate ESG research and analysis into our independent risk management functions, providing proprietary tools and services that help investment managers better understand the ESG risk profiles of investments.

**Stewardship:** We believe stewardship goes hand-in-hand with our commitment to integrate ESG into our investment process. The goal of our stewardship activities – engaging with company managements and voting proxies on our clients’ behalf – is critical to our ability as an active manager to have a voice and exercise ownership rights to affect corporate activities, policies and behaviors that impact attractive, long-term, risk-adjusted returns.

Ultimately, considering ESG in our investment strategies contributes to our number one priority: generating positive investment outcomes for our clients.

## 2. Our investment approach to ESG

We believe ESG investing is investing in a better future.

Our primary focus is on generating positive outcomes for our clients. For us, strong ESG practices can be seen as good business practices; we believe that by integrating ESG approaches with clients’ unique motivations we can improve investment outcomes for a better future, together.

<table>
<thead>
<tr>
<th>Investor motivations</th>
<th>“Investing in a changing world”</th>
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<td>Incorporating material ESG</td>
<td>Seeking to ensure investments are aligned with client values. Methods can include negative screening (exclusions), norms-based screening, and positive screening on E, S, G scores/metrics to arrive at desired ESG characteristics</td>
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<td>considerations to gain additional insight into the risk and opportunities that can affect the performance of an investment with the aim of providing better risk-adjusted returns</td>
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<td><strong>ESG Risk Management</strong></td>
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### 3. Commitment to best practices & involvement with industry initiatives

Understanding best practices and contributing our expertise to developing evolving standards is an essential part of our approach to ESG topics. We have close partnerships with leading industry associations, disclosures and standards bodies, and non-profit organizations to shape the latest approaches to the integration of ESG in financial strategies and processes. This includes:

**Principles for Responsible Investment.** In 2015, Wells Capital Management, the largest asset manager within WFAM, became a signatory of the Principles for Responsible Investment (PRI). Beyond our commitment to integrating ESG and publicly reporting on our progress, we are actively contributing to the work of the PRI to elevate ESG sophistication across the industry. Examples of this include contributing our investment expertise through our involvement in the PRI Fixed Income Advisory Committee and collaborative efforts with the PRI to convene investment professionals to discuss and learn from the latest industry trends.
**Sustainability Accounting Standards Board.** The Sustainability Accounting Standards Board (SASB) is an organization dedicated to the disclosure of material, industry-specific sustainability information in a cost-effective and decision-useful way. At SASB, Wells Fargo is represented on the Standards Board (accountable for the due process, outcomes, and ratification of the standards), the Investor Advisory Group (comprising of leading asset owners and asset managers who are committed to improving the quality and comparability of sustainability-related disclosure to investors), and the Standards Advisory Group (comprised of industry experts to advise SASB on issues that should be considered in the standards development process). Furthermore, we are a member of the SASB Alliance.

**Japan’s Stewardship Code.** The firm has been a signatory to Japan’s Stewardship Code since February 2017. Also known as Principles for Responsible Institutional Investors, the goal of the code is to promote sustainable growth of companies through investment and dialogue. The firm is fully committed to supporting each of the principles of the Japan Stewardship Code.

**Ceres.** We are Investor Network Members at Ceres, a sustainability nonprofit working with influential investors and companies to tackle the world’s biggest sustainability challenges, including climate change, water scarcity and pollution, and human rights abuses.

**CDP.** We are investor signatories to CDP (formerly known as the Carbon Disclosure Project). The CDP runs a global disclosure system and have built the most comprehensive collection of self-reported environmental data in the world.

**ESG INTEGRATION**

**A. Resources**

Each WFAM investment team integrates material ESG considerations in a way that is consistent with their asset class, investment process and strategy. This includes the integration of ESG information within fundamental research, which is foundational to our actively managed equity and fixed income investment strategies. Our investment teams are supported by dedicated ESG resources that work across the organization to assist ESG integration by propagating best practices, evaluating new data sets and metrics, developing proprietary tools, and providing ongoing ESG risk monitoring and reporting.

ESG investing has been identified by senior leadership as one of our strategic initiatives, and significant progress has been made. A dedicated ESG team within the firm’s Strategic Business Segments group is focused on establishing a deeper understanding of client needs and building holistic, cross-functional expertise to focus on delivering ESG solutions; a dedicated Stewardship team has been formed; and dedicated ESG resources reside in our Global Credit Research and Portfolio Risk Management and Analytics teams.

We are committed to continuing to add resources to ESG as an important strategic segment of our business in order to support our clients’ needs.

**B. ESG integration: risk**

We believe an organization of diverse and independent investment teams is the optimal structure to achieve consistent outperformance and risk-adjusted returns across different strategies and asset classes for our clients. Each investment team may integrate ESG into their investment process differently to ensure a strong fit into their strategies; however, recognizing that ESG issues can represent significant portfolio risk factors, our firm’s Portfolio Risk Management and Analytics (PRMA) team provides a consistent framework for ESG risk reporting and analytics.
Using third party ESG data, the PRMA team supplements the independent investment teams' fundamental research with a number of ex-ante and ex-post tools and reports based on a proprietary flagging system that highlights the most significant ESG risks at both the security and portfolio levels. Additionally, an ESG alerts system is in place to notify investment teams of developing ESG-related issues that may have a large impact on specific companies or industries. The ESG resources provided by PRMA are intended to act as a catalyst to drive additional research and/or company engagement. As such, the responsibility for ESG integration is a partnership between the PRMA team and each of our 29 independent investment teams, each of which has nominated an ESG Liaison to facilitate open communications channels across the investment organization.

While every portfolio management team has risk management integrated into their investment process, our investment risk management oversight process anchors the independent investment teams to the firm via a consistent, unbiased framework for evaluating the investment risk in each strategy. This robust, firm-wide investment risk management oversight process is viewed as the “glue” that binds our portfolio management teams to a singular commitment to deliver the consistent risk-adjusted alpha our clients expect.

C. Monitoring and oversight

The firm has established that ESG risk oversight is an important role of senior investment leadership and we have built that into our longstanding risk review meetings. On a monthly basis, significant product specific benchmark-relative ESG exposures as well as the firm’s most significant exposures to securities with poor overall ESG scores are reviewed with the Office of the CIO\(^2\). This ESG review process is also conducted on a monthly basis with each of our investment teams on their strategies, which leads to a constructive dialogue on the ESG exposures, risks, and dynamics of ESG issues over time.

D. Stewardship

As active owners in the companies in which we invest, we regard stewardship as integral to our investment process. It enables us to have a voice and exercise ownership rights to improve disclosures and transparency and affect corporate activities, policies, and behaviors that impact attractive, long-term, risk-adjusted returns for our clients. WFAM’s approach to stewardship is exemplified by our Stewardship Statement:

> As fiduciaries, we are committed to effective stewardship of the assets we manage on behalf of our clients. To us, good stewardship reflects responsible, active ownership and includes both engaging with investee companies and voting proxies in a manner that we believe will maximize the long-term value of our investments.

At WFAM, our motivation for engagement results from a strong desire to deepen our knowledge of investee companies in which we allocate capital, or where appropriate, to take action to protect invested capital. WFAM recognizes that there are many influences on the value of equity and fixed income instruments and we attempt to identify and monitor those issues that have the most material impact. Common issues that warrant engagement include firm strategy, board and risk

\(^2\) The Office of the Chief Investment Officer provides oversight for all investment activities at WFAM, including risk management oversight. It is comprised of senior investment. The function of the Office of the CIO is to oversee risk mitigation actions and to provide credible challenges to portfolio management teams to ensure portfolio positions are well understood and consistent with the investment team’s stated process.
management oversight, corporate culture, remuneration, capital budgeting and allocation, sustainability, environmental concerns, and governance.

The WFAM Stewardship Platform aggregates the views of our fundamental equity and fixed income investment teams, the Portfolio Risk Management and Analytics Team, and our dedicated Stewardship Team. This collaborative review allows broader understanding of the challenges facing our investee companies and to identify areas where engagement is likely to have meaningful impact.

Based upon a prioritization process (described in further detail in the WFAM Engagement Policy), WFAM may communicate our views to company management and use the dialogue to further inform our understanding of the situation. We are most likely to engage if one or both of these criteria are met 1) we believe that doing so will result in protecting the value of capital we have invested on behalf of our clients or 2) fulfilling on our firm-wide commitment to advancing ESG issues and while seeking improved performance on those issues with investee companies. Investee engagement also provides incremental insights that our fundamental investment teams can incorporate into their analysis of company risk and opportunities to further align risk-adjusted performance to client expectations.

As a large active investment manager with a commitment to deep fundamental research, we have extensive processes for monitoring investee companies: as part of our investment teams’ research; through our independent risk team which is overseen by our Office of the CIO, and through our engagement platform by the Stewardship team.

E. Across asset classes

We incorporate ESG factors into our investment processes across asset classes and investment styles. Our team of sophisticated investors is able to understand and deploy advances in the latest in ESG thinking within a holistic cross-asset class approach.

Listed below are several examples of asset-class specific ESG integration procedures:

- Fixed income: ESG integration provides a way to better understand risk and our analysts have long considered ESG issues as part of ex-ante fundamental credit research – in particular governance issues. Where available, external ESG data is integrated within investment analysis and used as an input for investment decisions. Additionally, through our Global Credit Research platform, internal research analysts and investment professionals are able to leverage the deep ESG expertise across the organization. For example:
  - Taxable Fixed Income ESG Centralized Research System: the proprietary GRID system stores and shares research notes gathered by the taxable fixed income centralized research team. Research analysts gather ESG data through a combination of MSCI ESG Research, Bloomberg ESG Research, company financial statements, and company engagement.
  - Municipal Fixed Income ESG Centralized Research System: the municipal global credit research team relies exclusively on primary ESG research and engagement. Information is stored in a shared location with municipal investment teams.
  - Quantitative: Understanding that incorporating ESG issues can provide a valuable risk signal, ESG rankings have been included within proprietary stock-specific risk forecasts since 2013. Similar to other forward-looking risk factors, as a company becomes more risky from an ESG perspective its weight will be systematically reduced in the portfolio.
  - Listed equity (proxy voting): The firm has integrated ESG factors into the proxy voting process. Proxy voting is a key component of our Stewardship Platform and our firm has developed policies and procedures to ensure that proxies are voted in the best interests of clients. A new WFAM Proxy Voting Policy (effective as of 1 January 2019) was put in place to enhance our approach and consider industry
best practices in establishing our Top of House Views, governance and committee structure and responsibilities, utilization of proxy advisors, and voting transparency. WFAM exercises its voting responsibility as a fiduciary with the goal of maximizing value to clients.

WFAM supports sound corporate governance practices, shareholder rights and transparency in investee companies. Our Top of House view reflects our beliefs that Board of Directors of investee companies should have strong, independent leadership and should adopt structures and practices that enhance their effectiveness. We believe it is the responsibility of the Board of Directors to create, enhance, and protect shareholder value. We recognize that optimal corporate governance structures can vary by company size, industry, region of operations, and circumstances specific to the company.

Further details, including details on WFAM Top of House Proxy Voting Guidelines can be found in the WFAM Proxy Voting Policy document, which is disclosed on our website. We work with clients to meet their individual reporting requirements including proxy voting records and rationale for specific meetings.

F. Avoiding conflicts of interest

The firm has policies and procedures to manage and mitigate the risks of potential or perceived conflicts of interests. WFAM’s registered investment advisers, have fiduciary responsibilities to act in the best interests of its clients. Such duties include: reasonable and independent basis for its investment advice, seeking the best possible result, including price, when executing on behalf of clients, ensuring that any investment advice given is suitable to the client’s objectives, and refraining from engaging in personal securities transactions inconsistent with client interests. To minimize any potential conflicts with its clients, the firm manages its advisory services, fee structure, proxy voting, and investment selection process in accordance with pre-established client investment guidelines, the advisory contract with the client, and all applicable policies and procedures pursuant to Rule 206(4)-7 of the Advisers Act. The firm has a fiduciary responsibility to manage all client accounts in a fair and equitable manner. It seeks to provide best execution of all securities, to aggregate where appropriate and allocate securities to client accounts in a fair and timely manner. To this end, the firm has developed policies and procedures designed to mitigate and manage the potential conflicts of interest and conducts periodic reviews of trades for consistency with these policies. Further, WFAM’s SEC registered advisors disclose all identified potential conflicts of interest within its Form ADV Part 2A.

G. Client reporting

As an extension of ESG integration across our entire firm, we offer clients ESG risk and analytic reporting on their portfolio. Ultimately, our focus is on delivering investment outcomes that meet our clients’ needs, including alignment with the priorities and values that matter most to them. Our specific approach to ESG is therefore differentiated and determined by the unique requirements of each client; we believe in providing holistic ESG investment solutions and our objective is to provide the tailored solutions that provide alignment with values, meet financial goals, and generate positive investment outcomes.

H. ESG Council

The firm has formed an ESG Council that brings together stakeholders across the organization, including investment management leadership across asset classes (fixed income, equity, and multi-asset solutions) and across investment approaches (fundamental and quantitative), Portfolio Risk Management and Analytics, and the Strategic Business Segments team.
The ESG Council meets on a regular basis to provide a forum to review existing efforts, provide updates on strategic priorities, debate approaches and potential solutions, and make strategic decisions. The team shares responsibilities for attending industry events, conducting ESG education and training, and evaluating emerging ESG opportunities.

I. Climate Change

At WFAM, we understand that both physical risks and transition risks arising from climate change can have an effect on investment performance. We have created a cross-functional Climate Change Working Group that works with investment teams to integrate climate risks into research and investment decisions. The Climate Change Working Group has been staying abreast of the latest developments and conducting independent research, building analytical frameworks, and interacting extensively across the organization.

We are in the process of considering climate scenarios and stress tests (accompanied by traditional financial analysis) in our assessment of physical, transition, and liability risks at the company, industry, and portfolio level. Each of these risks is material to varying extents within our investment horizon, even if the worst physical effects may not occur for centuries. Transition risks can often be shorter-dated and more easily foreseen and incorporated into analysis.

Considering the complexity of the issue and the number of interplaying variables that will impact eventual outcomes, we understand there are a number of unknowns regarding how climate change will impact the global economy - both in terms of near and long-term outcomes. While this lack of clarity regarding outcomes acts as a hindrance to having a complete understanding of the financial impact of climate change themes, we understand that climate change will increasingly have an effect on the financial outcomes of the investments we make. In a broad sense, we understand that near and long-term risks can be reflected in the relative salience of transition risks in a move to low/no-carbon economy versus physical risks such as those facing physical assets from a rising sea level. We also understand climate change is a dynamic issue, requiring us to update our models to consider the latest information and most likely scenarios - including, for example, trends that underlie new regulations, extreme weather events on supply chain resiliency, and the potential financial risks underlying issues such as stranded assets.

Additionally, Wells Fargo has taken a number of steps to align to the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations. This includes submitting the annual CDP questionnaire (which has aligned with TCFD recommendations), conducting a formal study to understand physical risks of climate change on our facilities, and participating in studies to develop methodologies for 2 degree scenario analysis in our lending portfolio. In addition to the $200B sustainable finance lending pledge made in April 2018 and reporting on contributions toward the United Nations Sustainable Development Goals, Wells Fargo has committed to transparency around its sustainable financing accounting and inclusion practices, annual impact reporting, and progress in implementing the TCFD recommendations. As a signatory to the PRI, going forward WFAM submissions to the annual reporting process as relating to climate change will be aligned with the TCFD recommendations.
Stock values fluctuate in response to the activities of individual companies and general market and economic conditions. Bond 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 held by the fund. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and their impact on the fund and its share price can be sudden and unpredictable. Investing in environmental, social, and governance (ESG) carries the risk that, under certain market conditions, the investments may underperform products that invest in a broader array of investments. In addition, some ESG investments may be dependent on government tax incentives and subsidies and on political support for certain environmental technologies and companies. The ESG sector also may have challenges such as a limited number of issuers and liquidity in the market, including a robust secondary market. Investing primarily in responsible investments carries the risk that, under certain market conditions, an investment may underperform funds that do not use a responsible investment strategy.

Wells Fargo Asset Management (WFAM) is the trade name for certain investment advisory/management firms owned by Wells Fargo & Company. These firms include but are not limited to Wells Capital Management Incorporated and Wells Fargo Funds Management, LLC. Certain products managed by WFAM entities are distributed by Wells Fargo Funds Distributor, LLC (a broker-dealer and Member FINRA).

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