

**Wells Capital Management, Incorporated**  
("WellsCap" or the "Firm")  
Qualitative report supporting RTS 28 and Article 65(6)  
annual disclosure reports  
for the period January 1, 2019- December 31, 2019.

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WellsCap is a registered investment adviser with the Securities and Exchange Commission and is not a Markets in Financial Instruments Directive II ("MiFID II") entity; however, it is obligated by contract to manage certain client accounts in accordance with MiFID II regulations (the "MiFID accounts"). Accordingly, WellsCap is posting this qualitative data to support the MiFID II Regulatory Technical Standard (RTS) 28 and the MiFID Delegated Regulation Article 65(6) as they relate solely to MiFID accounts. This data does not apply to any of WellsCap's other managed accounts.

This qualitative report is intended to provide detailed analysis of the execution strategies and tools used by WellsCap to assess the quality of execution obtained on venues and from brokers to assist clients in assessing the WellsCap's execution practices.

**RTS 28** – covers transactions where WellsCap has executed an order directly against an execution venue (for example, a regulated market, Multi-Lateral Trading Facility, market maker and liquidity provider). Data contained in RTS 28 tables includes the top five execution venues in terms of trading volumes, as well as a narrative summarizing the analysis and conclusions drawn from monitoring of the quality of execution obtained for each class of financial instrument.

**Article 65(6)** – covers transactions where WellsCap has selected another firm to execute an order (for example, execution brokers to provide order execution services). Data contained in Article 65(6) tables includes the top five execution brokers in terms of trading volumes where WellsCap transmitted or placed clients' orders for execution, as well as a narrative summarizing the analysis and conclusions drawn from monitoring of the quality of execution obtained for each class of financial instrument.

Note: The following information is applicable for all classes of financial instruments and should be read in conjunction with the qualitative analysis accompanying each RTS 28 and Article 65(6) table:

**Scope of Reporting**

The Firm has only reported on its top five execution venues and execution brokers in financial instruments that the Firm places orders with (as detailed in the Wells Fargo Asset Management Order Execution Policy) in the course of performing investment business on behalf of its professional clients.

### **Execution Factors**

WellsCap takes all sufficient steps to obtain the best possible result for our clients taking into account a range of factors, including but not limited to:

- price
- costs (implicit and explicit), including broker commission rates where applicable
- timing and speed of execution
- likelihood of, and capabilities in, execution, clearance and settlement
- size of the transaction relative to others in the same or similar financial instrument
- ability to retain anonymity in the market or prevent information leakage, in order to minimize possible market impact
- access to liquidity/natural order flow
- a counterparty's willingness to commit capital to our transactions
- characteristics of the Trading Venue(s) to which an order can be directed
- financial status and responsibility of a counterparty or broker
- other appropriate factors, such as client mandate constraints

The relative importance of each of these factors within our order execution process will vary depending on a number of criteria, including:

- the nature of the order and rationale for the transaction (e.g. fund subscription/redemption; change in portfolio manager or analyst view),
- the characteristics of the financial instruments to which the order relates, and
- the characteristics of the available venues and brokers which can be used or to which client orders can be directed.

Another relevant factor is counterparty risk, particularly where financial instruments are not centrally cleared or settled by delivery versus payment. WellsCap's credit risk assessment of counterparties may have an impact on selection of the counterparty for each trade. Ordinarily price and costs together will merit high relative importance in obtaining 'best execution'. This may be tempered, for example, where the size of the trade is large compared to the liquidity of the instrument in question, or where speed of execution becomes important due to market conditions; the execution venue may then play a more important role.

### **Close Links/Conflicts of Interest**

In 2019, WellsCap executed equities trades on behalf of its clients with an affiliated broker-dealer, Wells Fargo Securities, LLC ("WFS"), on an agency basis. WellsCap does not act as principal or broker in connection with client transactions.

WellsCap's routing of orders to an affiliated broker-dealer presents a conflict of interest because execution of those orders will result in a Wells Fargo affiliated broker-dealer benefitting from the transaction. For example, WFS will receive brokerage commissions for transactions executed on an agency basis and may also receive payment for order flow, rebates or similar compensation in connection with the securities transactions it executes. WellsCap is subject to a duty to seek best execution for any securities transactions that it directs to a broker-dealer, including any transactions directed to one of its affiliated broker-dealers, such as WFS. WellsCap takes brokerage commission rates into account in connection with its broker selection process and expects that the commission rates paid to any affiliated broker-dealer will be attractive relative to the commission rates generally paid to unaffiliated broker-dealers for comparable transactions.

WellsCap acts as fiduciary with respect to its asset management activities and is required to act in the best interest of its clients and address conflicts that arise.

### **Specific Arrangements with Execution Venues and Brokers**

WellsCap does not have any specific arrangements concerning rebates or non-monetary benefits with any execution venue or broker. Effective 1/3/18, all MiFID accounts had research priced separately from execution and was paid 100% from the firm's P&L account.

### **Client Categorization**

None of the MiFID II accounts managed by WellsCap are retail accounts. WellsCap provides investment management services to mutual funds and other investment vehicles, institutional portfolios for endowments, foundations, healthcare organizations, educational organizations, public agencies, multi-employer plans, sovereign organizations, insurance companies, and Taft-Hartley plans. The Firm does not undertake investment business with individual retail clients, and does not give preference to any client over another with respect to trading practices.

### **Data/Tools Relating to Quality of Execution**

The Firm's investment teams review transaction data and utilize various analytic tools to evaluate best execution, including information provided by venues and brokers and internal transaction cost analyses. The data and tools available vary depending on the particular asset class. Execution data is assessed by the Firm's investment teams, compliance group and specialized committees that govern best execution.

### **Consolidated Tape Provider**

At the time of preparing this report there are no consolidated tape available as such WellsCap is not required to provide this information in the first set of reports.

### **Calculation of Number of Average Trades**

In calculating the average trade per business day, the Firm has based its calculation on 261 working days in the US in 2019.

### **Investment Team Asset Class Commentary**

#### **Bonds – Best Execution Commentary**

In achieving best execution, our investment team uses three primary methods. First, we utilize bids/offers wanted in competition. Typically, this process is utilized on an electronic platform (Market Axess) but can also be done via phone/Bloomberg. The competition process is very straight forward, receiving multiple bids / offers for the specified size of the trade. When we trade directly with a counterparty, we use our relative value analysis, current market trading levels and market expertise to achieve best execution. Liquidity, as well as price can also be a very important input to achieving best execution while managing portfolio risk and performance. The third way we achieve best execution is through the new issue process. New issues price on the bid side of the market and can offer investors opportunities to gain desired credit exposure at attractive prices.

#### **Short Duration Bond – Best Execution Commentary**

The Short Duration Fixed Income team achieves best execution by utilizing trading expertise situationally. In secondary trading and where appropriate, we use

electronic trading platforms to access between 5 and 50+ dealers in situations where we deem the investment to be highly liquid and the pricing to be transparent. In other situations we use our security by security knowledge to engage a more limited number of dealers, most typically in competitive situations, over the phone and execute only when we deem pricing to be best based upon relative value, liquidity, and market-based factors. In primary trading, we purchase bonds when new supply initially comes to market directly from syndicate book runners, usually with bid-side execution or at new issue concessions.

### **Equity - Best Execution Commentary**

WellsCap utilizes the services of an independent third party for best execution measurement and analysis on equity and foreign exchange transactions. In quantitatively evaluating our trading effectiveness, we recognize that transaction cost analysis (TCA) is an imperfect science and there is no single measure that can consistently capture the effectiveness of our trading approach. For this reason, we approach our equity trade analysis by holistically looking at a universe of trades through the following metrics:

- **Explicit cost – Actual commissions paid**
  - Measured by the average basis point (bps) commission per share
  
- **Implicit cost – Estimated market impact of trade**
  - Arrival price – captures the absolute slippage of a trade by comparing the execution price to the price of the security when a trade was initiated
  
  - Arrival price vs pre-trade cost estimate – uses a pre-trade cost estimate model to compare the projected market impact cost with our actual cost of execution on a trade
  
  - Interval VWAP – compares our execution price to the volume weighted average price in the market during the interval of a trade

We evaluate our trades by looking at the trade performance vs these measures directly as well as in where they fall within a peer group universe. The peer group approach compares a given subset of trades to other “like orders” contained within their peer group universe. These “like orders” are selected based on having similar characteristics as measured by things such as capitalization, liquidity, momentum, volatility, and region. WellsCap’s equity MiFID accounts continue to seek best execution and have processes in place to evaluate execution metrics as required by regulation.