WELLS FARGO ADVANTAGE FUNDS

News Release

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Media contact: Sondra Harris
415-222-0102
sondra.harris@wellsfargo.com

What’s in your bond fund? Wells Fargo analyzes fund holdings, finds some surprises

Nearly 40% of intermediate bond funds tracked by Morningstar dip into junk bonds, seeking to increase returns

SAN FRANCISCO—With a historic amount of assets shifting between asset management firms, many financial professionals are reexamining their bond investing strategies. Investors often use bonds to diversify away from equities. But in a study recently conducted by *Wells Fargo Funds Management, LLC*, analysts noticed a disturbing trend. Nearly 40% of the funds in Morningstar’s intermediate-term bond category have exposure to high-yield debt in an effort to boost returns by dipping lower in credit quality. The impact of unexpected exposure to high-yield debt on overall portfolio diversification is examined in the company’s white paper, *Core Bond Funds—Know What You’re Investing In*.

Core bond strategies are typically categorized by Morningstar as those principally invested in intermediate-term bond funds. This is the largest of Morningstar’s fixed-income categories, with more than 300 bond funds and about $1 trillion in assets.

“Bonds serve as a key cornerstone in a well-balanced portfolio, providing diversification against equities,” said Thomas O’Connor, portfolio manager of the *Wells Fargo Advantage Core Bond Fund.* “While the supplemental use of below-investment-grade securities is a legitimate way of allocating portfolio risk, some core bond strategies are quietly drifting toward a level of high-yield exposure that potentially dilutes the diversification benefits of a traditional core bond strategy. True core bond strategies generally have less than 10% of their assets in high-yield bonds.”

When core bond funds broaden their investing scope in search of higher returns, they may be canceling some of the diversification benefits they bring to an investment portfolio. Investors should do their homework in an effort to avoid inadvertently taking on unintended exposure to high yield in their bond funds.

As part of their study* the Wells Fargo analysts identified dozens of funds with significant allocations to below-investment-grade debt. They found that performance for this group of funds correlated more with that of the S&P 500 equity index than with the Barclays U.S. Aggregate Bond Index, often used as a benchmark for bonds. The research provides quantitative support that the group of funds with higher allocations to high-yield debt tended to behave more like equities than traditional core bonds did, thus not offering the diversification benefits an investor would expect from a bond fund. The white paper explains the study in further detail.

The Wells Fargo analysis presented in the white paper covers the diversification benefits of core bonds. It compares the correlations of various fixed-income asset classes with equities and discusses ways to identify and select a true core bond strategy. Financial advisors and other financial professionals can order a copy by going to **wellsfargoadvantagefunds.com/core** or by calling **1-800-368-7560**.

About Wells Fargo Funds Management

Wells Fargo Funds Management, LLC, a wholly owned subsidiary of Wells Fargo & Company, provides investment advisory and administrative services for *Wells Fargo Advantage Funds*. Other affiliates of Wells Fargo & Company provide subadvisory and other services for the funds. The funds are distributed by **Wells Fargo Funds Distributor, LLC**, Member FINRA/SIPC, an affiliate of Wells Fargo & Company.

Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. In general, when interest rates rise, bond values fall and investors may lose principal value. The use of derivatives may reduce returns and/or increase volatility. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). This fund is exposed to foreign investment risk and mortgage- and asset-backed securities risk. Consult the fund’s prospectus for additional information on these and other risks.

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 wellsfargoadvantagefunds.com. Read it carefully before investing.

*As of June 30, 2014

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