

# Product Alert

March 2, 2018

## Upcoming changes to the Wells Fargo Asset Allocation Fund

Wells Fargo Asset Management (WFAM) has announced upcoming changes to the Wells Fargo Asset Allocation Fund, which are detailed below. The changes were approved by the Wells Fargo Funds Board of Trustees, and implementation of the changes is expected to occur on or around June 15, 2018.

- Wells Capital Management Incorporated (WellsCap), a part of WFAM, will be named subadvisor, and will assume all portfolio management responsibilities for the fund. The fund's portfolio will no longer be subject to investment management by Grantham, Mayo, Van Otterloo & Co LLC (GMO).
- Christian Chan, Kandarp Acharya, and Petros Bocray, experienced managers of multiple asset allocation investment strategies, will be named portfolio managers and will be supported by their colleagues on the WFAM Multi-Asset Solutions (MAS) team on portfolio construction and implementation of the fund's investment strategy.
- Changes to the fund's investment strategy will be implemented to seek to achieve more consistent long-term returns. The fund will continue to be managed as a globally diversified multi-asset investment strategy and the risk profile will remain similar.
- The fund will adopt a new performance benchmark index.
- Net operating expense ratios will be substantially reduced.

For further information, please review the following Q&A.

### **Why is WFAM naming WellsCap as subadvisor of the Asset Allocation Fund and changing portfolio management from GMO?**

Wells Fargo has a long history of innovation in multi-asset solutions, including tactical asset allocation capabilities that launched in 1989 and the development of the industry's first suite of target date funds in 1994. We now have the opportunity to enhance the structure of the fund by employing the extensive multi-asset portfolio management experience and capabilities of the WFAM MAS team. The team incorporates a wide range of elements into portfolio decisions, including macroeconomic drivers, market expectations, and comprehensive factor analysis. All of these elements are pursued using a risk lens seeking to achieve the portfolio's objectives while carefully managing investment exposures. By incorporating all of these elements into portfolio decisions, we believe shareholders can benefit from more robust portfolio performance under a variety of market conditions with less variability in benchmark-relative returns.

Wells Fargo remains committed to making decisions that aim to achieve consistent long-term returns for our clients. Wells Fargo continues its long-standing relationship with GMO. GMO will continue to manage the underlying investments of the Wells Fargo Absolute Return Fund. There are no changes planned for the Absolute Return Fund and so shareholders can continue to have access to GMO within Wells Fargo Funds through the Absolute Return Fund.

### **What can you tell me about the broader MAS team?**

The MAS team fully integrates portfolio management capabilities with development of portfolio solutions that attempt to achieve client outcomes. Specifically, the MAS team delivers solutions to clients' investment challenges in an effort to increase and protect wealth and to generate income from their wealth.

The MAS team, led by **Nicolaas Marais**, has recently expanded to 21 members with an average of 20 years of industry experience and a combined 440 years of experience across the team. The MAS team manages

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approximately \$28 billion in assets (as of 12/31/17), including multi-asset portfolios and tactical asset allocation overlays, such as traditional balanced, target date, tactical allocation, and inflation-sensitive portfolios. The team recently developed and implemented transformative changes to some of its MAS product suites to introduce modern strategies, new asset classes where most impactful, and integration of factor-based investing to meet evolving client needs.

**Who are the portfolio managers that will be managing the Asset Allocation Fund?**

For more than a decade, the new portfolio managers, Christian Chan, Kandarp Acharya, and Petros Bocray, have been involved in the development and management of investment strategies at Wells Fargo Asset Management. They have worked on numerous multi-asset funds employing many different types of strategies, as well as risk and volatility management overlays, among other investment management strategies. Together, this experienced team currently co-manages approximately \$15 billion in multi-asset Wells Fargo Funds and collective investment trusts (as of 12/31/17).

**Christian Chan, CFA**

Christian Chan is a senior portfolio manager and the head of U.S. Multi-Asset Portfolio Management on the MAS team at WFAM, where he develops and manages multi-asset investment solutions. His prior positions include head of investments for Wells Fargo Funds Management, LLC; director of investments at mPower Advisors, LLC; and senior analyst with Asset Strategy Consultants. Christian entered the investment industry in 1997. He earned a bachelor's degree in American studies from the University of California, Los Angeles, and has earned the right to use the Chartered Financial Analyst® (CFA®) designation.

**Kandarp Acharya, CFA, FRM**

Kandarp Acharya is a senior portfolio manager on the MAS team at WFAM, where he develops, implements, and manages multi-asset investment solutions. He directed the development of RiskOptics, a patent-pending multi-asset risk model, and has developed and implemented quantitative tactical allocation models. His work experience includes overlay portfolio management, risk management, and fixed-income research. He entered the investment industry in 1994. Kandarp earned a bachelor's degree in electronics engineering from India's Maharaja Sayajirao University, a master's degree in electrical and computer engineering from Marquette University, and a master's degree in business administration from the University of Chicago. He has earned the right to use the Chartered Financial Analyst® (CFA®) designation.

**Petros Bocray, CFA, FRM**

Petros Bocray is a portfolio manager on the MAS team at WFAM. Prior to joining the MAS team, he held a similar role with the Quantitative Strategies group at WFAM where he co-managed several portfolios and conducted research supporting the quantitative models and investment strategies. He earned a bachelor's degree in economics from the College of Charleston. Petros has earned the right to use the Chartered Financial Analyst® (CFA®) designation and is a member of CFA Institute and CFA Society Minnesota.

**How are the Asset Allocation Fund's investment strategy and portfolio changing?**

The fund will continue to be managed to a 65% equity/35% fixed income neutral allocation and remains a viable option for a global balanced investor. The risk profile of the fund also will remain similar. The MAS team will broadly diversify the fund's portfolio of investments among various underlying master portfolios and funds managed by WFAM rather than GMO-managed underlying funds. Through these investments, it will engage multiple portfolio management teams with a variety of investment approaches that invest in U.S., international developed, and emerging markets equities and fixed income, with the potential to invest in nontraditional assets.

### How does the MAS team approach asset allocation decisions?

Strategic management involves determining the desired exposures for the portfolio. The team's in-depth research produces capital market assumptions that are used in combination with risk assessments and correlations to determine the strategic weights of the portfolio's allocations. The team implements the strategic weights using allocations to a select group of diverse WFAM-advised underlying master portfolios and funds.

The second layer of investment management is tactical. The portfolio will employ the Tactical Asset Allocation (TAA) Overlay strategy used in other Wells Fargo Funds. The TAA Overlay is a dynamic process that tilts the portfolio toward assets with higher expected returns or lower expected risk. Portfolio tilts are dependent upon market conditions and reflect the views of the portfolio management team and the WFAM Investment Committee. These tilts typically are implemented using futures contracts.

### Does the MAS team manage any other strategies similar to the Asset Allocation Fund?

The team currently manages the Wells Fargo Growth Balanced Fund, which is a diversified, multi-asset balanced fund having the same investment objective and a similar investment strategy to the Asset Allocation Fund. The Growth Balanced Fund—Administrator Class has outperformed the Asset Allocation Fund—Administrator Class over the 1-, 3-, 5-, and 10-year time periods through December 31, 2017. Additionally, the Growth Balanced Fund Administrator Class has an Overall Morningstar Rating of 4 stars. The Overall Morningstar Rating, a weighted average of the 3-, 5-, and 10-year (if applicable) ratings, is out of 718 funds in the allocation—50% to 70% equity category, based on risk-adjusted returns as of December 31, 2017. For additional information about the Growth Balanced Fund, consult the Growth Balanced Fund prospectus.

### Performance as of December 31, 2017 (%)

Fund	1 year	3 year	5 year	10 year	Gross expense ratio	Net expense ratio
Asset Allocation Fund (Admin)	14.98	4.70	5.19	4.17	1.27	1.19
Growth Balanced Fund (Admin)*	15.68	7.28	10.51	5.90	1.26	0.95

\*As head of WFFM Investments, Christian Chan was named co-portfolio manager of the Growth Balanced Fund in 2005. Kandarp Acharya became portfolio manager in 2013, and Petros Bocray was added as co-portfolio manager in 2016.

**Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes that a shareholder may pay on a fund.** Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. 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, [wellsfargofunds.com](http://wellsfargofunds.com). Administrator Class shares are sold without a front-end sales charge or contingent deferred sales charge.

For the Growth Balanced Fund Administrator Class, the manager has contractually committed, through 9-30-18, to waive fees and/or reimburse expenses to the extent necessary to cap the fund's total annual operating expenses after fee waiver, at 0.95%. Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses from funds in which the master portfolios invest, and extraordinary expenses are excluded from the expense cap. All other acquired fund fees and expenses from the affiliated master portfolios and funds are included in the expense cap. After this time, 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 or the total annual fund operating expense after fee waivers, as stated in the prospectus.

### Are the Asset Allocation Fund's expenses being lowered?

Yes—in conjunction with the changes mentioned above, there will be net operating expense reductions for the fund. The net operating expenses will change as follows:

Share class	R	A	C	Admin	Inst
Asset Allocation Fund current <sup>1</sup> (gross %)	1.60	1.35	2.10	1.27	1.02
Asset Allocation Fund current <sup>1</sup> (net %)	1.60	1.35	2.10	1.19	0.99
Asset Allocation Fund revised <sup>2</sup> (net %)	1.38	1.13	1.88	0.95	0.80

<sup>1</sup> The manager has contractually committed, through August 31, 2018, to waive fees and/or reimburse expenses to the extent necessary to cap the fund's total annual fund operating expenses after fee waiver at 1.12% for Class R, 0.87% for Class A, 1.62% for Class C, 0.64% for the Administrator Class, and 0.44% for the Institutional Class. Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses (including the expenses of Asset Allocation Trust), and extraordinary expenses are excluded from the expense cap. After this time, the cap may be increased or the commitment to maintain the cap may be terminated only with the approval of the Board of Trustees. Without this cap, the fund's returns would have been lower. The expense ratio paid by an investor is the net expense ratio or the total annual fund operating expense after fee waivers, as stated in the prospectus, including acquired fund fees and expenses which are reflected in the figures above.

<sup>2</sup> Effective on or about June 15, 2018, these expenses will be capped at 1.38% for Class R, 1.13% for Class A, 1.88% for Class C, 0.95% for the Administrator Class, and 0.80% for the Institutional Class as a contractual commitment from the manager through August 31, 2020. Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses from funds in which the underlying master portfolios and funds invest and money market funds, and extraordinary expenses are excluded from the expense cap. All other acquired fund fees and expenses from the affiliated master portfolios and funds are included in the expense cap. After this time, the cap may be increased or the commitment to maintain the cap may be terminated only with the approval of the Board of Trustees. Without this cap, the fund's returns would be lower. The expense ratio paid by an investor is the net expense ratio or the total annual fund operating expense after fee waivers, as stated in the prospectus, including acquired fund fees and expenses which are reflected in the figures above.

### Is there a change in the Asset Allocation Fund's benchmark?

Yes, the fund's benchmark will change to more effectively align with the new investment approach of the fund. The current and revised benchmark weights are shown below.

Current benchmark	Revised benchmark
65% MSCI ACWI	45% Russell 3000® Index
35% Bloomberg Barclays U.S. Aggregate Bond Index	20% MSCI ACWI ex USA
	35% Bloomberg Barclays U.S. Aggregate Bond Index

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## How will the Asset Allocation Fund's investments be transitioned and what are the expected impacts of the transition?

The fund's underlying investments through the Asset Allocation Trust in GMO funds will be redeemed and the MAS team will broadly diversify the fund's portfolio of investments among various master portfolios and funds managed by WFAM. This transition of assets will result in transaction costs and may result in capital gains. Please consult with your tax advisor for potential impacts.

## Does this change affect other Wells Fargo Funds for which GMO provides the investment management?

No—Wells Fargo is committed to our long-standing relationship with GMO. GMO will continue to manage the underlying investments of the Wells Fargo Absolute Return Fund and there are no changes planned for the Absolute Return Fund. The Asset Allocation Fund and Absolute Return Fund are separate products with distinct investment objectives. We are focusing our relationship with GMO on the Absolute Return Fund, the underlying GMO fund which is GMO's highest conviction strategy and, through the Absolute Return Fund, shareholders can continue to have access to GMO.

Balanced funds may invest in stocks and bonds. 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. The use of derivatives may reduce returns and/or increase volatility. Alternative investments, such as short sales, are speculative and entail a high degree of risk. Foreign investments are especially volatile and can rise or fall dramatically due to differences in the political and economic conditions of the host country. The fund is indirectly exposed to all of the risks of an investment in the underlying funds and indirectly bears expenses of the underlying funds. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). The fund is exposed to high-yield securities risk, mortgage- and asset-backed securities risk, geographic risk, and smaller-company securities risk. Consult the fund's prospectus for additional information on these and other risks. The fund currently invests substantially all of its assets in Asset Allocation Trust, an open-end management investment company having the same investment objective and strategy as the fund, but will no longer do so following the transition described above. Any portfolio data shown for the fund currently represents that of the Asset Allocation Trust.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar risk-adjusted return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees, unless otherwise indicated), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and is rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. Across U.S.-domiciled allocation—50% to 70% equity funds, the Growth Balanced Fund received 4 stars among 718 funds, 5 stars among 670 funds, and 3 stars among 477 funds for the 3-, 5-, and 10-year periods, respectively. The Morningstar Rating is for the Administrator Class only; other classes may have different performance characteristics. **Past performance is no guarantee of future results.**

*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 [wellsfargofunds.com](http://wellsfargofunds.com). Read it carefully before investing.*

Wells Fargo Asset Management (WFAM) is a trade name used by the asset management businesses of Wells Fargo & Company. Wells Fargo Funds Management, LLC, a wholly owned subsidiary of Wells Fargo & Company, provides investment advisory and administrative services for Wells Fargo 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, an affiliate of Wells Fargo & Company. Neither Wells Fargo Funds Distributor nor Wells Fargo Funds Management holds fund shareholder accounts or assets. This material is for general informational and educational purposes only and is NOT intended to provide investment advice or a recommendation of any kind—including a recommendation for any specific investment, strategy, or plan. 309384 03-18

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