

# Income Opportunities Fund

## Closed-End Fund

### FUND FACTS

Ticker	EAD
NAV Ticker	XEADX
CUSIP	94987B105
Fund inception date	2-26-03
Shares outstanding	68,300,981
Average daily volume	444,506

### OBJECTIVE

The fund seeks a high level of current income. As a secondary objective, the fund may also seek capital appreciation consistent with its investment objective.

### INVESTMENT STRATEGY

Under normal market conditions, the fund invests at least 80% of its total assets in below investment-grade (high yield) debt securities, loans and preferred stocks. These securities are rated Ba or lower by Moody's or BB or lower by S&P, or are unrated securities of comparable quality as determined by the subadviser.

### ASSET ALLOCATION (%)

Equity	0.05
Fixed income	96.62
Cash & equivalents	3.33

### FUND MANAGERS

Name	Years of investment experience
Niklas Nordenfelt, CFA	27
Philip Susser	23

### EXPENSES (%)

Gross expense ratio	1.68
Net expense ratio	1.63

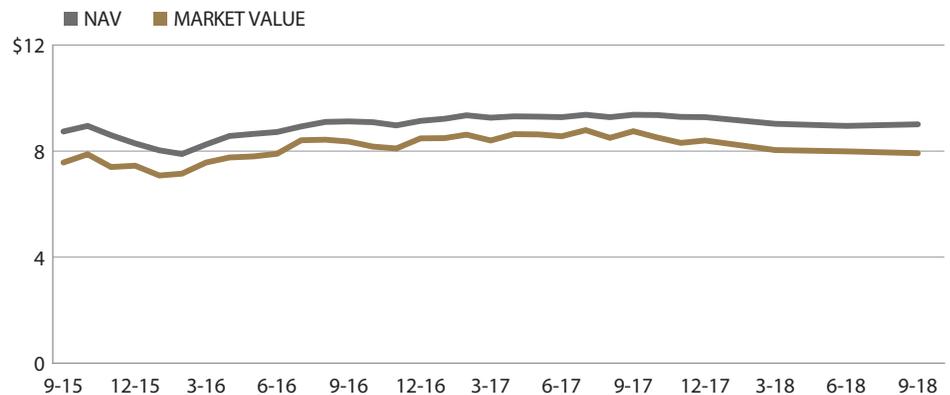
As of 4-30-18. Net ratio includes contractual waivers and/or reimbursements set to expire 3-6-19. Expense ratios include 0.74% of interest expense. Excluding interest expense, gross ratio would be 0.94%.

### Performance (%)

	3 month	Year to date	Annualized				Since incep.
			1 year	3 year	5 year	10 year	
Fund at Market	1.07	0.00	-2.07	11.16	6.75	11.65	6.84
Fund at NAV	2.64	2.98	4.04	10.61	8.02	10.24	8.05

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, principal value, and yields 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. Performance shown is net of all applicable fund fees and expenses. Performance figures of the fund do not reflect fees an investor may be charged pursuant to the terms of any brokerage account agreements with their broker or financial intermediary. Current month-end performance is available by calling 1-800-222-8222.

### NAV vs. market price chart



### Net asset value (NAV) and market price data

Current share price (\$)	7.92
Current share NAV (\$)	9.01
Premium/discount at NAV (%)	-12.10

### Fund capitalization

Net assets (\$ in millions)	615.2
Bank borrowings (\$ in millions)	230.0
Total assets (\$ in millions)	845.2
Leverage as a percentage of total assets (%)	27.2
Effective rate on borrowing (%)	2.82
Borrowing cost impact on expense ratio (%)	1.02

### Fund characteristics

Number of holdings	333
Portfolio turnover (%)	25.2
Duration (years)	3.56
Weighted average maturity (years)	4.88
Weighted average coupon (%)	5.85

### Yields (%)

	At Market	At NAV
Distribution rate*	7.98	7.02
30-day SEC yield <sup>1</sup>	—	6.98
30-day unsubsidized SEC yield <sup>1</sup>	—	6.93

\*Distribution rate is calculated by annualizing the last distribution and then dividing by the period ending NAV or market price. Special distributions, including special capital gains distributions, are not included in the calculation. Distributions may be sourced from any or all of the following: income, capital gains and return of capital.

### Dividend information

Declaration date	Distribution per share (\$)
09-28-2018	0.06097
08-15-2018	0.05197
07-27-2018	0.05197
06-29-2018	0.05197
05-23-2018	0.05197
04-27-2018	0.05197

Dividends shown are from the last six months and are paid monthly. Historical dividend sources since the Fund's inception have included net investment income, realized gains, and return of capital. Each fund will send shareholders a Form 1099-DIV for the calendar year that will tell shareholders how to report these distributions for federal income tax purposes. A fund's current distribution rate and historical dividends are not indicative of future performance.<sup>2</sup>

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### Credit rating allocation (%)

	Fund
BBB/Baa	6.17
BB/Ba	38.61
B/B	43.64
CCC/Caa and below	11.53
Other	0.05

Calculated as a percentage of market value of bonds. Credit rating allocation is subject to change and may have changed since the date specified. Percent totals may not add to 100% due to rounding. The ratings indicated are from Standard & Poor's, Fitch Ratings Ltd., and/or Moody's Investors Service. If a security was rated by all three rating agencies, the middle rating was used. If rated by two of three rating agencies, the lower rating was used, and if rated by one of the agencies, that rating was used.

### Sector allocation (%)

Energy	23.10
Telecom Services	19.39
Consumer discretionary	13.93
Consumer staples	11.44
Info Tech	9.70
Industrials	8.88
Utilities	5.89
Financials	5.48
Real estate	2.20

Calculated as a percentage of market value of bonds. Sector allocation is subject to change and may have changed since the date specified. These amounts may differ from the final sector categorization determined by the portfolio management team. Percent totals may not add to 100% due to rounding.

### Maturity distribution (%)

	Fund
0 - 1 year	11.11
1 - 3 years	18.27
3 - 5 years	29.56
5 - 10 years	36.30
10 - 20 years	3.01
20+ years	1.71

Calculated as a percentage of market value of bonds. Maturity distribution is subject to change and may have changed since the date specified. Percent totals may not add to 100% due to rounding.

### Top geographic allocations (%)

United States	90.83
Canada	4.07
Luxembourg	2.55
Netherlands	0.97
Ireland	0.78
United Kingdom	0.74
New Zealand	0.05

Geographic allocation is subject to change and may have changed since the date specified. Percent totals may not add to 100% due to rounding.

### Top holdings (%)

LPL Holdings, Inc.	1.93
NGPL PipeCo LLC (New)	1.82
Tallgrass Energy Partners LP	1.56
Pattern Energy Group, Inc.	1.39
KAR Auction Services, Inc.	1.36
NCR Corporation	1.22
DiamondFinance Corp.	1.21
Intelsat Jackson Holdings SA	1.16
Montreign Operating Company, LLC	1.11
NSG Holdings II LLC	1.10

Portfolio holdings are subject to change and may have changed since the date specified. The holdings listed should not be considered recommendations to purchase or sell a particular security.

1. The 30-day SEC yield is calculated with a standardized formula mandated by the SEC. The formula is based on maximum offering price per share and includes the effect of any fee waivers. Without waivers, yields would be reduced. The 30-day unsubsidized SEC yield does not reflect waivers in effect. A fund's actual distribution rate will differ from the SEC yield and any income distributions from the fund may be higher or lower than the SEC yield.

2. If a distribution is from a source other than net investment income, the Fund provides a notice to shareholders with an estimate of its distribution source at that time. The final determination of the source of all dividend distributions in the current year will be made after year-end. The actual amounts and sources of the amounts for tax reporting purposes will depend upon a fund's investment experience during the remainder of the fiscal year and may be subject to change based on tax regulations. Each fund will send shareholders a Form 1099-DIV for the calendar year that will tell shareholders how to report these distributions for federal income tax purposes.

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### Strategy

The U.S. economy continued to churn ahead with solid economic activity during the third quarter, supported by a strong labor market and tax cuts. Yield spreads significantly tightened, driven by the lack of new issuance and the high-yield market shrinking. Despite interest rates rising and trade war concerns, the high-yield market absorbed these events and continued to rise. Global macroeconomic events remained a concern due to the potential effect on volatility.

Within the ICE BofAML U.S. High Yield Index<sup>3</sup> during the quarter, BB-rated bonds returned 2.41%, B-rated bonds returned 2.41%, and bonds rated CCC and below returned 2.69%. Industrials gained 2.50%, utilities returned 1.97%, and financials returned 2.13%. Within the index, spreads tightened by 43 basis points (bps; 100 bps equal 1.00%), finishing at 328 bps. At its third-quarter meeting, the Federal Open Market Committee raised the target on the federal funds rate for the third time this year, with projections now calling for one more rate hike in 2018. Risk-on markets and a search for yield continued to offer support to high-yield issues.

The Income Opportunities Fund's return based on market value was 1.07% for the three-month period that ended September 30, 2018. During the same period, the fund's return based on its net asset value (NAV) was 2.64%. Based on its NAV return, the fund outperformed relative to the comparative index, the ICE BofAML U.S. High Yield Index, which gained 2.44%. The index also returned 2.94%, 5.54%, and 9.38% for the 1-, 5-, and 10-year periods, respectively.

### Contributors to performance

The fund's overweight to the energy sector contributed as oil prices rose in the third quarter. In particular, investments in oil-field services and pipelines were additive. Underweights to the metals/mining and consumer products subsectors also slightly contributed. Security selection contributed in cable/satellite, banking, insurance, autos, and gaming. The fund was overweight credits rated CCC and below, which outperformed higher-quality issues, contributing to performance. The fund's underweight to BB-rated credits, the worst-performing credit tier in the index, also contributed to performance.

### Detractors from performance

From a sector allocation perspective, an overweight to wirelines and underweights to pharmaceuticals and supermarkets detracted from relative performance. Security selection detracted within capital goods, health care, information technology, and energy. The fund's allocation to floating-rate high-yield bank loans (approximately 3.7% at quarter-end) was a slight detractor from performance as bank loans underperformed broad-based, fixed-rate, high-yield paper. The fund's allocation to BBB-rated credits, which underperformed the broad high-yield index, and cash restrained performance during the quarter.

### Management outlook

The team sees the high-yield space as more insulated from international-related market risks relative to the investment-grade market due to several industries unique to high yield being more domestically focused. Supply and demand technicals in the high-yield market remain strong as the supply of new paper is limited by significant refinancings. The team expects a combination of a growing economy, low-cost capital, few distressed issuers, and low default rates to push the high-yield markets forward. Although valuations are rich, this is not something unique to the high-yield market, and compared with other parts of the market, high-yield spreads appear justified by market conditions.

The demand for floating-rate loans continues to be strong and is driven by their seniority in the capital structure and their floating-rate nature in a rising-rate environment. These technical factors continue to dampen returns for the bank-loan space, as loan issuers can refinance their spreads lower in light of the significant inflows into the market. Supply continues to be aggressive in terms of call protections and covenants, and given these conditions and rich valuations, the team remains constructive on the space but also patient and ready to respond when valuable opportunities arise.

3. The ICE BofAML U.S. High Yield Index is a market-capitalization-weighted index of domestic and Yankee high-yield bonds. The index tracks the performance of high-yield securities traded in the U.S. bond market. You cannot invest directly in an index. Copyright 2018. ICE Data Indices, LLC. All rights reserved.

**This closed-end fund is no longer offered as an initial public offering and is only offered through broker/dealers on the secondary market.** A closed-end fund is not required to buy its shares back from investors upon request. Returns reflect expense limits previously in effect, without which returns would have been lower. Investment return and principal value of an investment will fluctuate so that investors' shares, when sold, may be worth more or less than their original costs. The fund has issued preferred shares and, in addition, may borrow, which creates leverage.

The use of leverage results in certain risks, including, among others, the likelihood of greater volatility of net asset value and the market value of common shares. Derivatives involve additional risks, including interest rate risk, credit risk, the risk of improper valuation, and the risk of noncorrelation to the relevant instruments that they are designed to hedge or closely track. 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. High-yield securities have a greater risk of default and tend to be more volatile than higher-rated debt securities.

The ratings indicated are from Standard & Poor's, Moody's Investors Service, and/or Fitch Ratings Ltd. Credit-quality ratings: Credit-quality ratings apply to underlying holdings of the fund and not the fund itself. Standard & Poor's rates the creditworthiness of bonds from AAA (highest) to D (lowest). Ratings from A to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Moody's rates the creditworthiness of bonds from Aaa (highest) to C (lowest). Ratings Aa to B may be modified by the addition of a number 1 (highest) to 3 (lowest) to show relative standing within the ratings categories. Fitch rates the creditworthiness of bonds from AAA (highest) to D (lowest).

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