

Income Opportunities Fund

Closed-End Fund

FUND FACTS

Ticker	EAD
NAV Ticker	XEADX
CUSIP	94987B105
Fund inception date	2-26-03
Shares outstanding	69,005,762
Average daily volume	222,699

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 advisor.

ASSET ALLOCATION (%)

Equity	0.10
Fixed income	96.17
Cash	3.73

FUND MANAGERS

Name	Years of investment experience
Niklas Nordenfelt, CFA	28
Philip Susser	24

EXPENSES (%)

Gross expense ratio	1.58
Net expense ratio	1.53

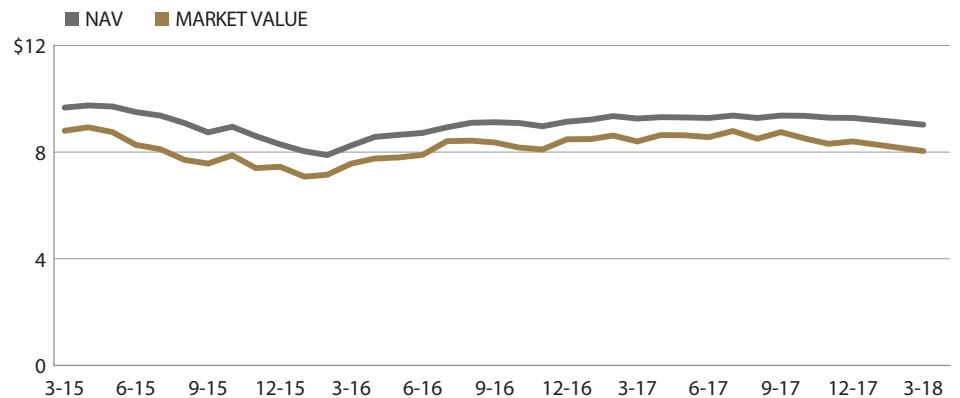
As of 10-31-17. Net ratio includes contractual waivers and/or reimbursements set to expire 3-06-19. Expense ratios include 0.66% of interest expense. Excluding interest expense, gross ratio would be 0.92%.

Performance (%)

	3 month	Year to date	Annualized				Since incep.
			1 year	3 year	5 year	10 year	
Fund at Market	-2.34	-2.34	3.79	6.63	4.88	8.30	6.91
Fund at NAV	-0.71	-0.71	5.75	7.41	7.28	8.40	8.06

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 1-800-343-2898.

NAV vs. market price chart



Net asset value (NAV) and market price data

Current share price (\$)	8.04
Current share NAV (\$)	9.03
Premium/discount at NAV (%)	-10.96

Fund capitalization

Net assets (\$ in millions)	622.9
Bank borrowings (\$ in millions)	230.0
Total assets (\$ in millions)	852.9
Leverage as a percentage of total assets (%)	27.0
Effective rate on borrowing (%)	2.49
Borrowing cost impact on expense ratio (%)	0.89

Fund characteristics

Number of holdings	335
Portfolio turnover (%)	33.3
Duration (years)	3.71
Weighted average maturity (years)	5.04
Weighted average coupon (%)	5.83

Yields (%)

	At Market	At NAV
Distribution rate*	7.61	6.78
30-day SEC yield ¹	—	6.97
30-day unsubsidized SEC yield ¹	—	6.92

*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 (\$)
3-29-2018	0.05197
2-28-2018	0.05197
1-26-2018	0.05641
12-29-2017	0.05641
11-10-2017	0.05641
10-27-2017	0.05641

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.²

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Credit rating allocation (%)

	Fund
BBB/Baa	4.86
BB/Ba	37.73
B/B	42.40
CCC/Caa and below	14.97
Other	0.04

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 (%)

	Fund
Energy	23.49
Telecom Services	19.10
Consumer discretionary	12.92
Consumer staples	11.35
Info Tech	9.89
Industrials	8.35
Financials	6.87
Utilities	5.84
Real estate	2.18

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	7.19
1 - 3 years	21.64
3 - 5 years	26.13
5 - 10 years	40.76
10 - 20 years	2.42
20+ years	1.83

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 (%)

	Fund
United States	89.91
Canada	5.47
Luxembourg	2.37
Netherlands	0.83
United Kingdom	0.71
Ireland	0.65
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 (%)

	Fund
LPL Holdings, Inc.	1.94
NGPL PipeCo LLC (New)	1.79
Tallgrass Energy Partners LP	1.55
Pattern Energy Group, Inc.	1.40
KAR Auction Services, Inc.	1.39
Teekay Corporation	1.27
Montreign Operating Company, LLC	1.25
NCR Corporation	1.24
DiamondFinance Corp.	1.20
Intelsat Jackson Holdings SA	1.13

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

Investment markets in 2017 benefited from policy action on tax reform and deregulation, which helped reduce volatility and were tailwinds for risk assets. In the first quarter of 2018, however, the markets saw the downside of policies that have been market unfriendly. Interest rate hikes by the U.S. Federal Reserve (Fed), along with populist rhetoric playing out in the form of potential tariffs and a trade war with China, increased equity market volatility and restrained investor enthusiasm on all risk assets.

In the ICE BofA Merrill Lynch U.S. High Yield Index,³ bonds rated B and CCC outperformed BB-rated bonds. Within industrial sectors, utilities outperformed industrials and financials. Within the high-yield index, spreads widened by 9 basis points (bps; 100 bps equal 1.00%) on the quarter, finishing at 372 bps. High-yield loans outperformed fixed-rate paper during the quarter as a rising London Interbank Offered Rate and consistent inflows provided a lift to loans. The fund's quarter-end duration was 3.71 years compared with the index's duration of 4.22 years.

The Income Opportunities Fund's return based on market value was -2.34% for the three-month period that ended March 31, 2018. During the same period, the fund's return based on its net asset value (NAV) was -0.71%. Based on its NAV return, the fund outperformed relative to the index, which returned -0.91%. The ICE BofAML U.S. High Yield Index also returned 3.69%, 5.01%, and 8.12% for the 1-, 5-, and 10-year periods, respectively.

Contributors to performance

Security selection contributed during the quarter and drove outperformance. Contributing was selection in certain industries where the fund's holdings outperformed the benchmark, such as in insurance, cable and satellite, technology, and energy. The energy outperformers particularly came from the exploration and production and oil-field services subsectors. The fund's investments in bonds rated CCC and below outperformed higher-quality credits, which contributed to performance. The fund's underweight to BB-rated bonds, the worst-performing credit sector, further benefited performance. The fund's out-of-benchmark allocation to floating-rate high-yield bank loans (approximately 4% at quarter-end) was a slight contributor to performance, as bank loans outperformed broad-based fixed-rate high-yield paper.

Detractors from performance

Investments in the telecommunication services sector detracted from performance as the segment sold off significantly during the quarter, particularly in wirelines and media/entertainment along with holdings in the packaging and retail subsectors. An underweight to aerospace and defense also detracted. BBB-rated credits underperformed the broad high-yield index, and the fund's allocation to that credit sector detracted.

Management outlook

Growth remains strong in the U.S. and overseas, and with default rates continuing to be low, a near-term recession still appears to be far off. Consumer sentiment drives the U.S. economy, and the consumer is in very strong shape. Wages are rising at a moderate pace, although there are some signs of higher wage inflation, and the unemployment rate continues to hover around 4.1%. Supply and demand in the high-yield market is strong, as the supply of new paper is limited by significant refinancings. A combination of strong corporate fundamentals, a growing economy, and low default rates are expected to push the high-yield markets forward, in our view. 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, driven by their seniority in the capital structure and floating rates in a potentially rising rate environment. These technical factors continue to provide a ceiling to returns in the bank loan space, as loan issuers can refinance their spreads lower with all the 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 when valuable opportunities arise.

Of note, in 2016, the Board approved a change to the principal investment strategy, allowing the fund to hold up to 20% in CCC-rated credits and below (and not forcing it to sell should the allocation to lower quality increase based on downgrades or market-value fluctuations). The fund has not meaningfully added to lower-quality debt based on this change. We now see some of the best opportunities in B-rated and BB-rated securities in the high-yield market and will add selectively.

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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