

Multi-Sector Income Fund

Closed-End Fund

FUND FACTS

Ticker	ERC
NAV Ticker	XERCX
CUSIP	94987D101
Fund inception date	6-25-03
Shares outstanding	32,717,506
Average daily volume	150,391

OBJECTIVE

The fund seeks to provide a high level of current income consistent with limiting its overall exposure to domestic interest-rate risk.

INVESTMENT STRATEGY

The fund allocates its assets between three separate investment strategies, or sleeves. Under normal market conditions, the fund will allocate approximately 30%-70% of its total assets to a sleeve consisting of non-investment-grade (high yield) corporate debt, including floating-rate high yield bank loan securities; approximately 10%-40% to a sleeve of foreign debt securities, including emerging market debt; and approximately 10%-30% to a sleeve of adjustable-rate and fixed-rate mortgage backed securities, and investment grade corporate bonds.

ASSET ALLOCATION (%)

Equity	0.03
Fixed income	96.90
Cash & equivalents	3.07

FUND MANAGERS

Name	Years of investment experience
Christopher Kauffman, CFA	22
Michael Lee	37
Niklas Nordenfelt, CFA	28
Anthony Norris	54
Alex Perrin	27
Philip Susser	24
Christopher Wightman	22
Peter Wilson	41
Noah Wise, CFA	17

EXPENSES (%)

Gross expense ratio	2.00
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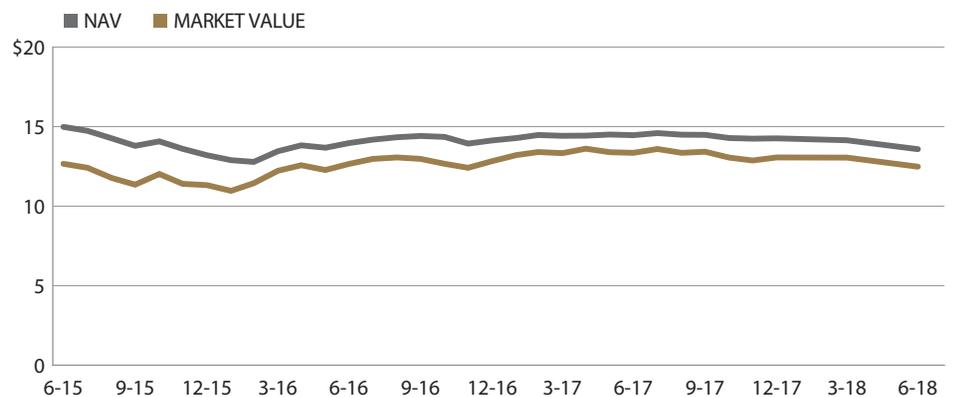
As of 4-30-18. Expense ratios include 0.89% of interest expense. Excluding interest expense, gross ratio would be 1.11%.

Performance (%)

	3 month	Year to date	Annualized				Since incep.
			1 year	3 year	5 year	10 year	
Fund at Market	-1.93	0.45	3.15	9.44	6.02	8.05	6.36
Fund at NAV	-1.51	0.10	3.63	6.42	5.75	7.53	7.31

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 (\$)	12.48
Current share NAV (\$)	13.58
Premium/discount at NAV (%)	-8.10

Fund capitalization

Net assets (\$ in millions)	444.3
Bank borrowings (\$ in millions)	187.5
Total assets (\$ in millions)	631.8
Leverage as a percentage of total assets (%)	29.7
Effective rate on borrowing (%)	3.06
Borrowing cost impact on expense ratio (%)	1.31

Fund characteristics

Number of holdings	610
Portfolio turnover (%)	26.2
Duration (years)	3.52
Weighted average maturity (years)	5.49
Weighted average coupon (%)	5.73

Yields (%)

	At Market	At NAV
Distribution rate*	10.40	9.64
30-day SEC yield ²	—	6.37

*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 (\$)
6-29-2018	0.10720
5-23-2018	0.10761
4-27-2018	0.10781
3-29-2018	0.10795
2-28-2018	0.10805
1-26-2018	0.10794

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.³

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Credit rating allocation (%)

	Fund
AAA/Aaa	5.49
AA/Aa	1.99
A/A	8.60
BBB/Baa	20.22
BB/Ba	26.26
B/B	28.40
CCC/Caa and below	8.94
Not rated	0.07
Other	0.03

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.

Portfolio composition (%)

Corporate bonds	54.90
Foreign government bonds	16.00
Loans	14.30
Yankee corporate bonds and notes	6.70
Non-Agency mortgage backed securities	3.10
Foreign bonds-corporate	3.00
Agencies	1.30
ABS	0.70

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

Maturity distribution (%)

	Fund
0 - 1 year	5.99
1 - 3 years	19.63
3 - 5 years	31.86
5 - 10 years	34.60
10 - 20 years	4.85
20+ years	3.02
Other	0.03

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	71.17
Colombia	3.89
Mexico	3.64
Canada	3.46
Indonesia	2.83
Malaysia	2.82
Supranational	2.51
Luxembourg	1.78
New Zealand	1.47
India	1.04

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 (%)

Malaysia Government SR Unsecured	1.94
Mex Bonos Desarr Fix Rt Bonds	1.80
LPL Holdings, Inc.	1.55
Government of Indonesia	1.49
Government of Colombia	1.31
Indonesia Government SR Unsecured	1.24
NGPL PipeCo LLC (New)	1.20
Titulos De Tesoreria Bonds	1.05
Titulos de Tesoreria TES Class B	1.03
Government of New Zealand	1.02

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. 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 fund seeks a high level of current income consistent with limiting its overall exposure to interest rate risk. The fund's main investments include three principal fixed-income sectors: mortgage/corporate bonds, high-yield bonds, and international/emerging market bonds. During the quarter, the fund's international bond investments made the strongest contribution to overall performance, trailed by positive performance from its mortgage and corporate holdings, while the high-yield portfolio sleeve detracted from performance.

The Multi-Sector Income Fund's return based on market value was 2.42% 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 1.65%. Based on its NAV return, the fund outperformed relative to the Multi-Sector Income Blended Index,³ which returned 0.29%. The Multi-Sector Income Blended Index also returned 5.63%, 3.38%, and 5.63% for the 1-, 5-, and 10-year periods, respectively.

Contributors to performance

High-yield bonds posted a positive return for the quarter as credit spreads slightly tightened. The fund was overweight credits rated CCC and lower, which outperformed higher-quality credits, contributing to performance. The fund had a significant underweight to BB-rated credits, the worst performing credit tier in the index, and this further contributed to performance. Contributing within the high-yield sleeve was selection in certain sectors where the fund's holdings outperformed the index, such as cable/satellite, banking, insurance, autos, and gaming.

Detractors from performance

The mortgage and corporate bond sleeve detracted from overall fund performance primarily due to sector allocation. The fund normally invests most assets in post-reset adjustable-rate mortgages (ARMs) and floating-rate collateralized mortgage obligations (CMOs), backed by high-quality, government-sponsored entities. During the quarter, we sold some ARMs to cover redemptions, which allowed the floating-rate CMO position to increase modestly. Prepayments increased during the quarter as the yield curve flattened, inciting consumers to refinance ARMs and invest in fixed-rate mortgages. As a result, the sector allocation detracted from performance. Issue selection within ARMs detracted from results because the effect of wider spreads more than offset gains from certain pools with rising coupons. The international bond sleeve also was a performance detractor. Country allocations detracted from performance as currencies weakened relative to the U.S. dollar during the quarter. Within the high-yield bond sleeve, security selections in energy detracted, particularly in the exploration and production and oil-field services subsectors.

Management outlook

Corporate fundamentals remain strong and the U.S. economy continues to have room to run as the effects of tax reform continue to be a boon for companies. Inflation continues to advance at a normal rate, mitigating some inflationary concerns from earlier in the year, and is expected to continue modestly rising within the Federal Reserve's target range. A stabilization in the economic data and policy expectations has reduced volatility and supported credit valuations, although political factors such as trade concerns, migration issues in Germany and Italy, and elections in emerging market countries have the potential to add further uncertainty to markets. The teams managing the portfolio sleeves expect a combination of strong corporate fundamentals, a growing economy, and low default rates to be constructive for spread sectors. We also maintain a long-term view that the U.S. dollar will weaken due to factors such as the current account deficit, increasing budget deficits, and increasing hedging costs for European and Japanese investors.

3. The Multi-Sector Income Blended Index is weighted 7.5% Bloomberg Barclays U.S. Corporate Bond Index, 7.5% Bloomberg Barclays U.S. Securitized Index, 60% ICE BofAML High Yield U.S. Corporates, Cash Pay Index, 18% J.P. Morgan GBI-EM Global Diversified Composite Index, and 7% J.P. Morgan Global Government Bond Index (ex U.S.). The Bloomberg Barclays U.S. Corporate Bond Index is an unmanaged market-value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more. The Bloomberg Barclays U.S. Securitized Index is an unmanaged composite of asset-backed securities, collateralized mortgage-backed securities (ERISA-eligible), and fixed-rate mortgage-backed securities. The ICE BofAML High Yield U.S. Corporates, Cash Pay Index tracks the performance of U.S.-dollar-denominated below-investment-grade corporate debt currently in a coupon-paying period that is publicly issued in the U.S. domestic market. Copyright 2018. ICE Data Indices, LLC. All rights reserved. The J.P. Morgan GBI-EM Global Diversified Composite Index is an unmanaged index of debt instruments of 31 emerging countries. The J.P. Morgan Global Government Bond Index (ex U.S.) measures the total return from investing in 12 developed government bond markets—Australia, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, and the U.K. You cannot invest directly in an index.

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 fund is leveraged through a revolving credit facility and also may incur leverage by issuing preferred shares in the future. 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. Foreign investments are especially volatile and can rise or fall dramatically due to differences in the political and economic conditions of the host country. These risks are generally intensified in emerging markets. 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. This fund is exposed to mortgage- and asset-backed securities risk.

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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