

Utilities and High Income Fund

Closed-End Fund

FUND FACTS

Ticker	ERH
NAV Ticker	XERHX
CUSIP	94987E109
Fund inception date	4-28-04
Shares outstanding	9,255,648.63
Average daily volume	31,362

OBJECTIVE

The fund seeks a high level of current income and moderate capital growth, with an emphasis on providing tax-advantaged dividend income.

INVESTMENT STRATEGY

The fund allocates its assets between two separate investment strategies, or sleeves. Under normal market conditions, the fund will allocate approximately 70% of its total assets to a sleeve that places a focus on common, preferred and convertible preferred stocks and convertible debentures of utility companies (water, gas, electric and telecommunications companies), and approximately 30% of its total assets to a sleeve of U.S. dollar denominated non-investment-grade (high yield) debt.

ASSET ALLOCATION (%)

Equity	63.80
Fixed income	29.11
Cash & equivalents	7.10

FUND MANAGERS

Name	Years of investment experience
Niklas Nordenfelt, CFA	27
Timothy P. O'Brien, CFA	35
Philip Susser	23
Andrew Tuttle, CFA	20

EXPENSES (%)

Gross expense ratio	1.42
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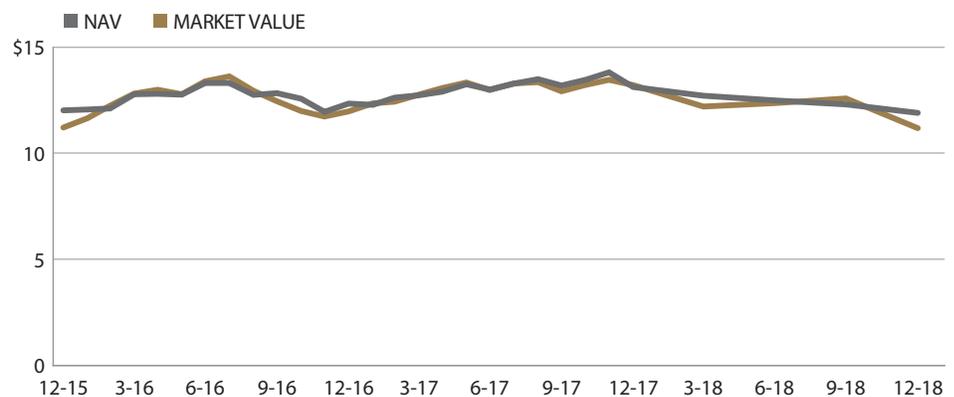
As of 8-31-18. Expense ratios include 0.46% of interest expense. Excluding interest expense, gross ratio would be 0.96%.

Performance (%)

	3 month	Year to date	Annualized				Since incep.
			1 year	3 year	5 year	10 year	
Fund at Market	-9.43	-8.89	-8.89	7.33	6.32	7.91	6.69
Fund at NAV	-1.39	-2.35	-2.35	7.07	6.04	9.15	7.50

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 (\$)	11.17
Current share NAV (\$)	11.90
Premium/discount at NAV (%)	-6.13

Fund capitalization

Net assets (\$ in millions)	110.1
Bank borrowings (\$ in millions)	22.0
Total assets (\$ in millions)	132.1
Leverage as a percentage of total assets (%)	16.7
Effective rate on borrowing (%)	3.16
Borrowing cost impact on expense ratio (%)	0.64

Fund characteristics

Number of holdings	337
Portfolio turnover (%)	104.4
Duration (years)	3.96
Weighted average maturity (years)	5.52
Weighted average coupon (%)	5.88

Yields (%)

	At Market	At NAV
Distribution rate*	7.91	7.42
30-day SEC yield ¹	—	4.31

*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 (\$)
12-28-2018	0.07500
11-09-2018	0.07500
10-26-2018	0.07500
09-28-2018	0.07500
08-15-2018	0.07500
7-27-2018	0.07500

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

Utilities and High Income Fund

Closed-End Fund

Credit rating allocation (%)

	Fund
BBB/Baa	5.18
BB/Ba	43.07
B/B	42.54
CCC/Caa and below	9.16
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 (%)

Top equity allocations

Utilities	35.71
Preferred stocks	12.52
Telecommunications services	5.46

Top fixed income allocations

Energy	6.37
Telecommunications services	5.14
Consumer discretionary	4.07
Consumer staples	3.31
Information technology	2.35

Calculated as a percentage of market value of investments. 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	2.82
1 - 3 years	16.67
3 - 5 years	22.88
5 - 10 years	53.46
10 - 20 years	2.72
20+ years	1.41

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	92.06
Canada	3.40
Luxembourg	1.87
Netherlands	1.22
United Kingdom	0.52
Ireland	0.50
New Zealand	0.43

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 (%)

Enel SpA	3.94
Duke Energy Corp Preferred Stock	3.86
PNM Resources, Inc.	3.72
FirstEnergy Corp.	3.54
Southern Co Preferred Stock	3.47
DTE Energy Co Preferred Stock	3.44
Terna S.p.A.	3.21
Verizon Communications Inc.	3.18
Public Service Enterprise Group Inc	3.14
American Electric Power Company, Inc.	3.10

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. 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.

Utilities and High Income Fund

Closed-End Fund

Strategy

While global growth appeared to slow and market volatility increased during the fourth quarter, there were still a number of economic signals that remained solid. U.S. inflationary pressures remained low, and business fundamentals—revenues and earnings—remained favorable. The U.S. Federal Reserve (Fed) increased the target range for the federal funds rate during the fourth quarter by 0.25%, as it seeks to normalize interest rate policy, but indicated that further rate increases in the year ahead may occur at a slower pace. In our view, telecommunications and utility company stocks are more responsive to interest rate changes at the long end of the Treasury yield curve, which have continued to be less substantial than rate changes at the short end of the curve since the beginning of 2018.

Economic growth in Europe was uneven. In the eurozone, German gross domestic product declined while France was plagued by protests, further slowing an already weak economy. The uncertainty of Brexit appeared to weaken growth within the U.K. Italy's economic growth is nonexistent as the country struggles with the European Union for a budget amid populist sentiment.

The Utilities and High Income Fund's return based on market value was -9.43% for the three-month period that ended December 31, 2018. During the same period, the fund's return based on its net asset value (NAV) was -1.39%. Based on its NAV return, the fund underperformed relative to the Utilities and High Income Blended Index,³ which returned -0.45%. The Utilities and High Income Blended Index also returned 2.28%, 8.81%, and 10.55% for the 1-, 5-, and 10-year periods, respectively.

Contributors to performance

At the individual stock level within the fund's equity sleeve, telecommunications holding AT&T Inc. (1.91% of the portfolio) was the largest individual detractor. In recent months, AT&T's sources of investor concerns included the company's leveraged balance sheet and its emerging market exposure. The team believes that AT&T's management expects to use future cash flows to reduce debt, the company's valuation gap relative to peers is lower than it has been historically, and the firm has significant cash-flow-generation capabilities. In addition, the team expects that the emerging market exposures could benefit AT&T over the long term. Lack of exposure to companies with a significant California customer base benefited returns because Northern California wildfires in recent years have strained finances at those companies. Italian holdings Enel S.p.A. (7.78% of the portfolio) and Tema S.p.A. (1.90% of the portfolio) aided results. These holdings benefited, in part, from an improved political environment in the region.

Within the fund's high-yield sleeve, the portfolio outperformed the broad high-yield index during the quarter. Driving performance was security selection, while sector and credit-quality allocation provided further small positives. The portfolio's underweight to credits rated CCC and below was a contributor as lower-rated paper underperformed. Sector allocation was a slight contributor to results, including underweights to chemicals and metals and mining along with an overweight to media and entertainment. Securities in technology, wirelines, retailers, and midstream energy companies contributed.

Detractors from performance

Within the fund's equity sleeve, lack of exposure to Duke Energy Corp. common stock detracted from returns. The fund's preferred stock holdings also detracted from returns. The team believes that the inclusion of preferred stocks can add income as well as enhance portfolio diversification and the stability of asset values over the long term. Preferreds tend to have lower price volatility than common stocks. The team believes that the recent decline in value of preferred holdings was influenced by tax-loss selling.

Within the high-yield sleeve, the underweight to the outperforming BB-rated credit tier was a detractor. On the negative side, the fund has an overweight to the energy sector, and as oil prices fell in the fourth quarter, this allocation—in particular, the allocation to oil-field services—was a detractor. Security selection contributed during the quarter. Selection in certain sectors where the fund's holdings underperformed the comparative index, such as in electric utilities, oil-field services, and independent energy, detracted from performance. Energy names that were hit particularly hard were Ultra Resources, Inc., within which the fund repositioned holdings, along with Bristow Group Inc. and Hornbeck Offshore Services, Inc., which fell sharply on weakness in oil prices. The fund's allocation to floating-rate high-yield bank loans (approximately 4.11% at quarter-end) was a slight detractor from performance as bank loans underperformed broad-based fixed-rate high-yield paper.

Management outlook

Regarding the fund's equity sleeve, the team sees parallels to 2004 with regard to interest rates. While the Fed continued to tighten on the short end of the curve, movement in the 10-year Treasury rates has been less dramatic. Inflation remains subdued in the U.S., and the potential for a recession in the coming months appears low. The team's global outlook remains favorable for the utilities sector over the long term—fundamentals are robust despite concerns about Europe, where economic growth appears to be sputtering. The team recognizes and monitors risks across global utilities and communication services sectors related to political changes, changes in expectations around Brexit, and slowing economic growth; however, it believes that the fund's holdings are likely to weather future volatility.

The team managing the fund's high-yield sleeve expects a combination of a still-growing economy, low default rates, and strong corporate fundamentals to continue to push the high-yield markets forward. The team believes that spreads still have further room to widen before worrying levels are reached. With the recent volatility, valuations look more attractive. The demand for floating-rate loans remains strong due to their seniority in the capital structure and their floating-rate nature in a rising rate environment. Supply continues to be aggressive in terms of call protections, and the team remains constructive on the space but also patient and ready when valuable opportunities arise.

The subadvisor intends to make use of a dividend capture strategy, by which the fund purchases a stock before an ex-dividend date and so becomes entitled to the dividend. The fund then typically sells the stock on or shortly after the stock's ex-dividend date, using the sale proceeds to purchase one or more other stocks expected to pay dividends. This may result in a lack of capital appreciation over time, which may also lead to erosion in the value of the fund. Dividend capture may also increase the portfolio turnover rate and related transaction costs of the fund.

3. The Utilities and High Income Blended Index is weighted 70% S&P 500 Utilities Index and 30% ICE BofAML U.S. High Yield Index. 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 the high-yield securities traded in the U.S. bond market. Copyright 2018. ICE Data Indices, LLC. All rights reserved. The S&P 500 Utilities Index is a market-value-weighted index that measures the performance of all stocks within the utilities sector of the S&P 500 Index. 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.

High-yield, lower-rated bonds may contain more risk due to the increased possibility of default. Foreign investments may contain more risk due to the inherent risks associated with changing political climates, foreign market instability, and foreign currency fluctuations. Risks of international investing are magnified in emerging or developing markets. Funds that concentrate their investments in a single industry or sector may face increased risk of price fluctuation due to adverse developments within that industry or sector. Small- and mid-cap securities may be subject to special risks associated with narrower product lines and limited financial resources compared with their large-cap counterparts. The use of leverage results in certain risks, including, among others, the likelihood of greater volatility of net asset value and the market price 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 they are designed to hedge or closely track. There are numerous risks associated with transactions in options on securities. Illiquid securities may be subject to wide fluctuations in market value and may be difficult to sell.

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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