Wells Fargo Diversified Income Builder Fund

General fund information

Ticker: EKSYX
Portfolio manager: Margie D. Patel
Subadvisor: Wells Capital Management Inc.
Category: Allocation

Fund strategy

- Uses a top-down approach to determine the fund’s allocation between stocks and bonds and the most desirable sectors and industries in which to invest; looks for sectors and industries that the team believes are poised to grow at or above the general level of economic growth
- Conducts rigorous fundamental research to determine the most attractive companies within selected sectors and industries
- Maintains flexibility to invest in the most attractively valued components of a company’s capital structure, which may be bonds, common stocks, preferred stocks, or convertible bonds

Portfolio characteristics

<table>
<thead>
<tr>
<th>Wells Fargo Diversified Income Builder Fund</th>
<th>Diversified Income Builder Blended Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. eff. duration</td>
<td>4.52 years</td>
</tr>
<tr>
<td>Avg. eff. maturity (yrs.)</td>
<td>5.17 years</td>
</tr>
<tr>
<td>30-day SEC yield</td>
<td>3.28%</td>
</tr>
</tbody>
</table>

Credit-quality allocation (%)

<table>
<thead>
<tr>
<th>Quality</th>
<th>Diversified Income Builder Fund</th>
<th>Diversified Income Builder Blended Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBB/Baa</td>
<td>6.7</td>
<td>0.0</td>
</tr>
<tr>
<td>BB/Ba</td>
<td>32.0</td>
<td>35.8</td>
</tr>
<tr>
<td>B/B</td>
<td>27.3</td>
<td>28.8</td>
</tr>
<tr>
<td>CCC/Caa and Below</td>
<td>3.0</td>
<td>10.4</td>
</tr>
</tbody>
</table>

Total bonds 69.0 75.0
Equities 30.3 25.0
Cash equivalents 0.8 0.0
Total fund 100.0 100.0

Sector allocation (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Equity portfolio</th>
<th>Russell 1000 Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>0.68</td>
<td>3.16</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>3.15</td>
<td>2.11</td>
</tr>
<tr>
<td>Energy</td>
<td>4.60</td>
<td>1.44</td>
</tr>
<tr>
<td>Financials</td>
<td>0.00</td>
<td>3.67</td>
</tr>
<tr>
<td>Health Care</td>
<td>1.30</td>
<td>3.48</td>
</tr>
<tr>
<td>Industrials</td>
<td>3.30</td>
<td>2.62</td>
</tr>
<tr>
<td>Information Technology</td>
<td>9.38</td>
<td>5.45</td>
</tr>
<tr>
<td>Materials</td>
<td>1.65</td>
<td>0.82</td>
</tr>
<tr>
<td>Private Placement</td>
<td>1.56</td>
<td>0.00</td>
</tr>
<tr>
<td>Real Estate</td>
<td>3.68</td>
<td>0.95</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>0.00</td>
<td>0.51</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.96</td>
<td>0.78</td>
</tr>
<tr>
<td>Total equities</td>
<td>30.27</td>
<td>25.00</td>
</tr>
</tbody>
</table>

*Returns for periods of less than one year are not annualized.

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. Current month-end performance is available at the fund’s website, wellsfargofunds.com. Institutional Class shares are sold without a front-end sales charge or contingent deferred sales charge.

The fund’s gross expense ratio is 0.75%. The fund’s net expense ratio is 0.71%. The manager has contractually committed, through 1-31-18, 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 0.71% for the Institutional Class. Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses (if any), and extraordinary expenses are excluded from the cap. Without these reductions, the fund’s returns would have been lower. 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.

Portfolio characteristics and sector weights are subject to change and may have changed since the date specified.

The fund’s 30-day unsubsidized SEC yield is 3.27%.

(See pages 4–5 for important information.)

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Wells Fargo Diversified Income Builder Fund

Market review

U.S. Treasury yield curve

- In the U.S., the yield curve flattened. Short-term bond yields rose as the Federal Reserve (Fed) raised its key short-term rate in June, but long-term yields fell as investors’ inflation and long-term interest-rate expectations softened. The 10-year Treasury ended the quarter modestly lower at 2.3%. As long-term yields fell, prices rose modestly for longer-term government bonds.
- U.S. Treasury yields remain relatively high compared with several other global government bond markets, although bond yields moved marginally higher in several international markets.

High-yield credit spreads

- High-yield bond prices rose, and the BofA Merrill Lynch High Yield U.S. Corporates, Cash Pay Index returned 2.16%. Across credit tranches of the corporate bond market, investment-grade bonds performed best.
- Credit spreads narrowed modestly and have been relatively flat so far in 2017. Consistent economic data and strong fundamentals support market stability. Default rates remain low.

Russell 1000 sector performance

- U.S. stocks rose in the quarter and have risen each month in 2017. Investors appreciated continued economic growth and strength in fundamentals, despite weaker oil prices in the quarter.
- The Russell 1000® Index returned 3.06%, with most sectors advancing. Growth-oriented sectors continued to lead, with the strongest gains in health care, industrials, and information technology (IT). The energy and telecommunication services sectors lagged.
Wells Fargo Diversified Income Builder Fund

Portfolio positioning and attribution

The Diversified Income Builder Fund modestly underperformed its custom benchmark, a blend of the BofA Merrill Lynch High Yield U.S. Corporates, Cash Pay Index (75%) and the Russell 1000 Index (25%), during the quarter. Underperformance was driven by equity exposure. Overall asset allocation effects were flat, although the fund benefited from a small overweight to stocks.

Stock holdings underperformed the Russell 1000 Index, driven by a combination of allocation and selection effects. Allocation effects were negative, driven by the fund’s overweight to energy, one of the benchmark’s worst-performing sectors. The fund was also hurt by an overweight to healthcare, the benchmark’s best-performing sector. Allocation effects in other sectors were relatively small. Selection effects were also negative. The most notable effect was in IT, where we favored more mature, stable companies, which underperformed many of the high-flying technology companies. In energy, we favored less cyclical names; however, our holdings fell marginally more than the benchmark. Our real estate holdings helped; we favored industrial names, such as tower companies, and downplayed more cyclical areas, such as retail.

Bond holdings outperformed bonds in the BofA Merrill Lynch High Yield U.S. Corporates, Cash Pay Index (75%) and the Russell 1000 Index. The fund benefited from its higher-quality bias, as BBB-rated and BB-rated bonds outperformed B-rated and CCC-rated bonds. Sector allocation effects were positive but modest, as there was little dispersion in sector returns for the benchmark. In the fund, returns were positive across all sectors, including energy, which was negative for the benchmark. In addition, the fund outperformed in materials, one of its largest bond sectors. Selection effects were modest in other sectors.

During the quarter, we kept allocations relatively stable and the fund continued to be overweight stocks relative to the benchmark. The fund was notably overweight IT, industrials, and materials. The fund had no exposure to financials or telecommunication services and was notably underweight consumer discretionary.

Outlook

We continue to have modest expectations for both economic and market growth. The Fed has reiterated its gradual path of interest-rate increases, and while hikes likely will continue, we do not expect a sharp rise in interest rates. Inflation remains low, and we believe government bond yields likely will remain in a trading range.

We believe the U.S. stock market offers moderate upside potential, with a backdrop of stable economic growth and strong corporate earnings. Despite the concern around record highs in the market, equity valuations remain reasonable and should be able to support additional capital appreciation.

We also have a favorable view for high-yield bonds. Investor demand for corporate bonds has been insatiable, which likely will continue to support high-yield bond prices. Fundamentals remain strong with low default rates. Credit spreads could continue to narrow from current levels. However, bond prices are already high and leave only modest room for appreciation. There continues to be a yield advantage for longer-maturity bonds, and we have kept the fund’s duration longer than that of the benchmark. We also favor the upper-quality tiers of the high-yield market, as we believe investors are not adequately compensated for the higher relative risk of bonds rated CCC and lower.

In a world of modest growth and low inflation, with valuations above average but not excessive, we maintain a relatively conservative posture. We do not find value in most traditionally defensive sectors, such as utilities and telecommunication services, which have been bid up by investors searching for yield. We believe these sectors also face pricing pressure and slow growth. Instead, we favor conservative areas in a number of classically cyclical sectors. In IT, we avoid the high-flying names and focus on stable companies with strong earnings and cash flow. In energy, we have focused on midstream companies, which tend to be less sensitive to moves in oil prices. In materials, we focus on specialty chemicals, which may be less volatile than pure commodity companies. In industrials, our largest exposure is in defense-related companies with long-term contracts. They have outperformed defense companies that lack long-term contracts, but the fundamentals appear to remain attractive—namely, strong cash-flow and revenue growth, high quality, and the ability to withstand an economic slowdown. We own a handful of real estate positions but have avoided retail. We also have avoided the health care sector, as we believe drug manufacturers will continue to face pricing pressure and the new-product pipeline is limited. We continue to avoid financial companies; these companies are often unsustainable in the high-yield market due to high funding costs, and stock prices may reflect continued uncertainty, high regulatory burdens, and slow economic growth.
Wells Fargo Diversified Income Builder Fund

**Benchmark descriptions:**
The **Diversified Income Builder Blended Index** is weighted 75% in the BofA Merrill Lynch High Yield U.S. Corporates, Cash Pay Index and 25% in the Russell 1000 Index. You cannot invest directly in an index.

The **BofA Merrill Lynch High Yield U.S. Corporates, Cash Pay Index** is an unmanaged market index that provides a broad-based performance measure of the non-investment-grade U.S. domestic bond index. You cannot invest directly in an index.

The **Russell 1000 Index** measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. You cannot invest directly in an index.

The **Lipper averages** are compiled by Lipper, Inc., an independent mutual fund research and rating service. Each Lipper average represents a universe of funds that are similar in investment objective. You cannot invest directly in a Lipper average.

**Definition of terms:**
30-day SEC yield: 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.

Credit-quality ratings: Credit-quality ratings apply to underlying holdings of the fund and not the fund itself. Standard & Poor's and Fitch rate the creditworthiness of bonds from AAA (highest) to D (lowest). Standard & Poor's rates the creditworthiness of short-term notes from SP-1 (highest) to SP-3 (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 CC (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. We generally define higher-quality bonds as having ratings of BBB/Baa or higher and lower-quality bonds as having ratings below BBB/Baa.

Duration: Duration is the weighted average of the timing of cash-flow payments from fixed-income securities. Duration is used as a measurement of sensitivity to 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. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). This fund is exposed to foreign investment risk, high-yield securities risk, and smaller-company securities risk.

Consult the fund’s prospectus for additional information on these and other risks.

**Fund facts**
- **Inception date:** 4-14-87
- **Net expense ratio:** Inst 0.71%
- **Assets— all share classes:** $682.79M

**Ranks and ratings**
- **Morningstar total return rankings—Institutional Class (as of 6-30-17):**
  - 1 year: 2 out of 210 funds
  - 3 year: 1 out of 181 funds
  - 5 year: 1 out of 149 funds
  - 10 year: 2 out of 83 funds

**Share class availability**

<table>
<thead>
<tr>
<th>Share class</th>
<th>Ticker</th>
<th>Gross expense ratio (%)</th>
<th>Net expense ratio (%)</th>
<th>Contractual expense waiver date</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>EKSA</td>
<td>1.08</td>
<td>1.08</td>
<td>1-31-18</td>
</tr>
<tr>
<td>C</td>
<td>EKSC</td>
<td>1.83</td>
<td>1.83</td>
<td>1-31-18</td>
</tr>
<tr>
<td>Admin</td>
<td>EKSD</td>
<td>1.00</td>
<td>0.90</td>
<td>1-31-18</td>
</tr>
<tr>
<td>Inst</td>
<td>EKSY</td>
<td>0.75</td>
<td>0.71</td>
<td>1-31-18</td>
</tr>
</tbody>
</table>

The manager has contractually committed 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 1.08% (A), 1.83 (C), 0.90 (Admin), and 0.71 (I). Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses (if any), and extraordinary expenses are excluded from the cap. After this time, the cap may be increased or 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.

The Overall Morningstar Rating, a weighted average of the 3-, 5-, and 10-year (if applicable) ratings, is out of 181 funds in the allocation—15% to 30% equity category, based on risk-adjusted returns as of 6-30-17.
**Wells Fargo Diversified Income Builder Fund**

**Strength. Expertise. Support.**
The expertise of our independent Wells Fargo Funds investment teams, our rigorous ongoing investment review, and a collaborative level of superior service is our trademark. We skillfully manage our funds to help institutions, financial advisors, and individuals navigate the investment terrain to reach their financial objectives. Everything we do on behalf of our investors is built on the standards of integrity and service established by our parent company, Wells Fargo & Company.

The views expressed in this document are as of 6-30-17 and are those of the portfolio manager(s). The views are subject to change at any time in response to changing circumstances in the market and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally, or any Wells Fargo Fund. Any specific securities discussed may or may not be current or future holdings of the fund. The securities discussed should not be considered recommendations to purchase or sell a particular security. Wells Fargo Funds Management, LLC, disclaims any obligation to publicly update or revise any views expressed or forward-looking statements.

The inception date of the Institutional Class was 1-13-97. Historical performance shown for the Institutional Class prior to its inception is based on the performance of Class A, the original class offered, and has not been adjusted to reflect the lower expenses applicable to the Institutional Class. If these returns had been adjusted, returns would be higher. Historical performance shown for the Institutional Class prior to 7-12-10 is based on the performance of the fund's predecessor, the Evergreen Diversified Income Builder Fund.

**Portfolio characteristics:**
Negative cash percentage is due to unsettled derivative contract positions, which cause the sector weight(s) to go up proportionately to the negative cash amount.

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.) Across U.S.-domiciled allocation--15% to 30% equity funds, the Diversified Income Builder Fund received 5 stars among 181 funds, 5 stars among 149 funds, and 5 stars among 83 funds for the 3-, 5-, and 10-year periods, respectively. Morningstar Ratings and Rankings are for the Institutional Class only; other classes may have different performance characteristics. The Morningstar Return ranking is based on the fund’s total return rank relative to all funds that have the same category for the same time period. 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. 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 Management nor Wells Fargo Funds Distributor has fund customer accounts/assets, and neither provides investment advice/recommendations or acts as an investment advice fiduciary to any investor. 304150 07-17

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