

Wells Fargo Government Securities Fund

GENERAL FUND INFORMATION

Ticker: SGVIX

Portfolio managers: Christopher Y. Kauffman, CFA[®]; Jay N. Mueller, CFA[®]; and Michal Stanczyk

Subadvisor: Wells Capital Management Inc.

Category: Intermediate government

FUND STRATEGY

- Seeks to outperform the Bloomberg Barclays U.S. Aggregate Ex-Credit Bond Index by investing in high-quality fixed-income instruments while maintaining a target duration of +/- one year of the benchmark
- Typically holds most of its exposure in mortgage-backed securities, including collateralized mortgage obligations (CMOs), and asset-backed securities issued or guaranteed by U.S. government agencies or government-sponsored enterprises
- Seeks to invest predominantly in securities rated AAA by Standard & Poor's or an equivalent quality rating from another Nationally Recognized Statistical Rating Organization

Quarterly review

- The fund outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate ex Credit Bond Index, for the three-month period that ended December 31, 2020.
- Sector allocation and selection were the biggest drivers of performance.

Market review

Economic conditions in the fourth quarter reflected a substantial uptick in COVID-19 cases globally. The resurgence of the virus forced a reduction in some vulnerable businesses, particularly in the leisure and entertainment industries. A drop in activity in COVID-19-vulnerable sectors was correlated with weakness in employment. Early optimism regarding the approval of COVID-19 vaccines sparked a positive reaction in financial markets, but the vaccine rollout has been slow so far.

We expect the eventual wide distribution of the vaccines to bring the pandemic under control, releasing a meaningful degree of pent-up consumer demand. Consumption in the U.S. will be supported by government stimulus throughout 2021. Getting back to pre-COVID-19 levels of employment, however, could be a slow and uneven process, with small-business employment a particular concern.

Inflation has remained subdued in the wake of the demand destruction caused by the pandemic. Inflation expectations have risen of late, however, as the Federal Reserve (Fed) signaled tolerance for an overshoot. Highly expansive monetary and fiscal policies, should they persist, will raise questions about longer-term inflation. Securitized sectors performed well, led by commercial mortgage-backed securities (CMBS).

Average annual total returns (%) as of 12/31/2020*

	3 month	Year to date	1 year	3 year	5 year	10 year	Since fund inception (10/29/86)
Government Securities Fund-Inst	0.29	6.76	6.76	4.63	3.55	3.18	6.10
Bloomberg Barclays U.S. Aggregate ex Credit Bond Index	-0.32	6.41	6.41	4.63	3.52	3.19	—
Lipper General U.S. Government Fds Average	-0.46	7.43	7.43	4.48	3.25	2.94	—

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

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes a shareholder may pay on an investment in 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, wfam.com. Institutional Class shares are sold without a front-end sales charge or contingent deferred sales charge.

The fund's gross expense ratio is 0.58%. The fund's net expense ratio is 0.49%. The manager has contractually committed, through December 31, 2021, to waive fees and/or reimburse expenses to the extent necessary to cap the fund's total annual fund operating expenses after fee waivers at 0.48% 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 expense cap. Prior to or after the commitment expiration date, the cap may be increased or the commitment to maintain the cap may be 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 (the total annual fund operating expenses after fee waivers) as stated in the prospectus.

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Portfolio positioning

Portfolio attribution* and strategy

Duration—contributor

- Over the quarter, through tactical trades, the fund's duration positioning was a small contributor to performance. Our duration positioning remained tactical and focused on the short term, with multiple trades expressing both long and short positions.
- Our duration positioning now shifts to a longer-term bearish view with the expectations of a continued economic recovery. We also recognize the opportunity to diversify our nominal Treasury holdings into Treasury Inflation-Protected Securities as the market prices in a higher likelihood of inflation.

Yield curve—contributor

- Over the quarter, through tactical trades, the fund's curve positioning was a small contributor to performance. Our curve positioning remained tactical and focused on the short term, with multiple trades expressing both long and short positions.
- Given higher probabilities of further U.S. fiscal stimulus and therefore more bond supply and the potential for a slightly higher inflation premium being priced into U.S. rates, we favor curve steepeners with underweights concentrated in the 10-year and 30-year parts of the curve.

Quality—neutral

- Given the fund's high-quality mandate, credit-quality allocation rarely will be a contributor or detractor versus the benchmark.

Sector—contributor

- Sector allocations contributed. The fund's overweight to U.S. agencies and securitized sectors, with an underweight to U.S. Treasuries, contributed. Within securitized, the fund's overweight to mortgage-backed securities (MBS) was the largest contributor. An overweight to agency CMBS also contributed as spreads rallied through pre-COVID-19 levels.
- An overweight to agency collateralized mortgage obligations was a modest detractor due to faster prepayments.

- During the quarter, we maintained an overweight to MBS and increased our exposure to lower 30-year coupons while reducing our exposure to higher coupons. We also found opportunities to add specified pools versus to-be-announced (TBA) mortgages and took advantage of volatility in the uniform mortgage-backed securities/Ginnie Mae (GNMA) pricing relationship by trading in and out of GNMA during the quarter.
- During the quarter, we increased our out-of-benchmark exposure to AAA-rated asset-backed securities.
- At current valuations, we think non-agency CMBS look fair to rich compared with other credit sectors, but we do believe there may be opportunities in specific single-asset, single-borrower securities where spread tightening has lagged.
- We continue to like owning MBS versus U.S. Treasuries given strong technicals and strong production coupon TBA rolls even though mortgage valuations look expensive.

Issue selection—contributor

- Coupon positioning within MBS contributed, specifically focusing on structures where the Fed was involved in purchases.
- We think the mortgage basis has room to tighten further, and we anticipate maintaining barbelled positioning within the 30-year coupon stack, with overweights to 2.0% and 2.5% coupons, underweights to 3.0% to 4.0% coupons, and overweights to seasoned higher coupons.
- While on-the-run agency CMBS spreads look historically tight, we believe the strong technicals resulting from Fed and bank purchases will support valuations, and we remain overweight. We continue to see value in off-the-run Fannie Mae Delegated Underwriting and Servicing pools. We also see value in AAA-rated residential mortgage-backed securities, including certain nonqualified mortgage and reperforming loan securities.

*Performance attribution is discussed gross of expenses. The gross-of-expenses performance attribution does not reflect the deduction of the fund's expenses as shown in the prospectus.

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Portfolio characteristics

	Wells Fargo Government Securities Fund	Bloomberg Barclays U.S. Aggregate ex Credit Bond Index
Avg. eff. duration	4.78	5.07
Avg. eff. maturity (yrs.)	6.61	6.44
30-day SEC yield	1.45%	—

Credit-quality allocation (%)¹

AAA/Aaa	100.79	99.18
AA/Aa	1.63	0.67
A/A	0.56	0.12
BBB/Baa	0.00	0.03
Not rated	0.92	0.00
Cash & equivalents	-3.90	0.00

Sector allocation (%)

U.S. treasuries	12.16	54.70
Cash & equivalents	-3.90	0.00
Government-related	21.01	2.42
Corporate bonds	1.19	0.00
CMBS	12.73	3.27
MBS	39.15	39.12
CMO	11.14	0.00
ABS	2.53	0.49
Other securitized	3.99	0.00

1. The ratings indicated are from Standard & Poor's, Fitch Ratings, and/or Moody's Investors Service. The percentages of the fund's portfolio with the ratings depicted in the chart are calculated based on the total investments of the fund. If a security was rated by all three rating agencies, the median rating was used. If a security was rated by two of the three rating agencies, the lower rating was used. If a security was rated by one of the agencies, that rating was used.

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

Small differences in rounding may occur and percentages may not add up to 100%.

The fund's 30-day unsubsidized SEC yield is 1.37%.

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.

Fund facts

Inception date	10/29/1986
Net expense ratio—Inst	0.49%
Assets—all share classes	\$717.91M

Rankings and ratings

Morningstar total return rankings—Institutional Class (as of 12/31/2020)

Morningstar Category	Intermediate government
1 year	62 out of 234
3 year	42 out of 224
5 year	22 out of 203
10 year	24 out of 180

Overall Morningstar Rating™ ★★★★★

The Overall Morningstar Rating, a weighted average of the 3-, 5-, and 10-year (if applicable) ratings, is out of 224 funds in the Intermediate government category, based on risk-adjusted returns as of 12/31/2020.

Share class availability

Share class	Ticker	Gross expense ratio (%)	Net expense ratio (%)	Contractual expense ratio waiver date
A	SGVDX	0.91	0.86	12/31/2021
C	WGSCX	1.66	1.61	12/31/2021
Admin	WGS DX	0.85	0.65	12/31/2021
Inst	SGVIX	0.58	0.49	12/31/2021

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 waivers at 0.85% (A), 1.60% (C), 0.64% (Admin), and 0.48% (Inst). Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses (if any), and extraordinary expenses are excluded from the expense cap. Prior to or after the commitment expiration date, the cap may be increased or the commitment to maintain the cap may be 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 (the total annual fund operating expenses after fee waivers) as stated in the prospectus.

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Benchmark descriptions:

The Bloomberg Barclays U.S. Aggregate Ex-Credit Bond Index is composed of the Bloomberg Barclays U.S. Government Bond Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index, and it includes U.S. Treasury issues, agency issues, and mortgage-backed securities. You cannot invest directly in an index.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, U.S.-dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities, and commercial mortgage-backed securities. You cannot invest directly in an index.

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. 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. Moody's rates the creditworthiness of short-term U.S. tax-exempt municipal securities from MIG-1/VMIG-1 (highest) to SG (lowest). Credit quality and credit-quality ratings are subject to change.

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.

Yield curve: The yield curve is a graphical representation of fixed-income security yields (usually U.S. Treasuries) at their respective maturities, starting with the shortest time to maturity and sequentially plotting in a line chart to the longest maturity.

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Risks: 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. The use of derivatives may reduce returns and/or increase volatility. Securities issued by U.S. government agencies or government-sponsored entities may not be guaranteed by the U.S. Treasury. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). This fund is exposed to mortgage- and asset-backed securities risk. Consult the fund's prospectus for additional information on these and other risks. The U.S. government guarantee applies to certain underlying securities and not to shares of the fund.

The Morningstar Rating for funds, or star rating, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar risk-adjusted return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product 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. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% 3-year rating for 36–59 months of total returns, 60% 5-year rating/40% 3-year rating for 60–119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods.

Across U.S.-domiciled intermediate government bond funds, the Government Securities Fund received 4 stars among 224 funds, 4 stars among 203 funds, and 4 stars among 180 funds for the 3-, 5-, and 10-year periods, respectively. The Morningstar Rating is for the Institutional Class only; other classes may have different performance characteristics.

The Morningstar absolute ranking is based on the fund's total return rank relative to all funds that have the same category for the same time period. Morningstar rankings do not include the effect of sales charges. **Past performance is no guarantee of future results.**

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