Annual Report

October 31, 2016

WELLS FARGO ASSET MANAGEMENT

Wells Fargo Multi-Sector Income Fund (ERC)

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Contents

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* A complete schedule of portfolio holdings as of the report date may be obtained, free of charge, by accessing the following website: https://www.wellsfargofunds.com/assets/edocs/regulatory/holdings/multi-sector-income-ann.pdf or by calling Wells Fargo Funds at **1-800-222-8222**. This complete schedule, filed on Form N-CSR, is also available on the SEC's website at sec.gov.

Karla M. Rabusch
President
Wells Fargo Funds

The U.S. Federal Reserve (Fed) continued an easy monetary policy although it raised the federal funds target rate in December 2015 because it believed the U.S. economy was strong enough to begin normalizing monetary policy.

Dear Shareholder:

We are pleased to offer you this annual report for the Wells Fargo Multi-Sector Income Fund for the 12-month period that ended October 31, 2016. During this period, fixed-income markets benefited from a combination of accommodative monetary policies, continued U.S. economic growth, and a moderate high-yield default rate outside of commodity-related sectors.

Major central banks continued to provide stimulus, helping support global economies and keep interest rates low.

The U.S. Federal Reserve (Fed) continued an easy monetary policy although it raised the federal funds target rate in December 2015 because it believed the U.S. economy was strong enough to begin normalizing monetary policy. During the remainder of the period covered by this report, the Fed kept the federal funds rate steady. Outside the U.S., the eurozone fell into deflation in February; in response, the European Central Bank (ECB) announced an expansion of its stimulus program. The ECB cut all three of its short-term rates during the reporting period, increased its asset-purchase program from 60 billion euros per month to 80 billion, expanded the list of asset-purchase program eligible securities to include investment-grade nonbank debt, and created a fund-to-lend program where banks could be paid to lend money. Likewise, after the U.K. voted to leave the European Union (E.U.) in June 2016, the Bank of England announced that it would buy corporate bonds with the goal of lowering borrowing costs and encouraging businesses to invest. In Japan, the Bank of Japan maintained an aggressive monetary program aimed at combating deflation.

The U.S. economy proved resilient; non-U.S. economies generally were weaker.

The divergence between U.S. and non-U.S. economic growth continued, with persistent weakness in European and Japanese inflation, risks of a hard landing in China, and the recalibration of energy and commodity prices weighing on the markets. In the U.S., economic growth advanced, and inflation trended higher but remained tame. Meanwhile, oil prices fell dramatically (reaching a secular low of $26 per barrel in February) before increasing to $47 per barrel by the end of the reporting period. In addition, the U.K. vote on June 23, 2016, to exit the E.U. exacerbated uncertainty about its economic growth, financial markets, and political responses to a number of policy issues.

As a result of the favorable macroeconomic backdrop, fixed-income markets rallied across the board.

Even though the Fed raised its key rate during the period, it was a modest increase, and further rate hikes were not immediately forthcoming. As a result, market yields declined and bond prices rose. Within the reporting period, episodes of greater volatility aided perceived safe-haven investments, such as U.S. Treasuries. As volatility waned, riskier assets tended to outperform. After several years of appreciating, U.S. dollar currency movements traded within a relatively stable range.

Low global yields incented investors to take on additional risk by purchasing high-yield bonds. It helped that the solid U.S. economy kept the high-yield default rate low for non-commodity-related companies. Although Moody's Investors Service, Inc., projected in July 2016 that the U.S. high-yield default rate could reach 6.4% by the end of 2016, much of that number came from metals and mining firms (10.2% projected default rate) and oil and gas companies (8.6% projected default rate).

Since the end of the financial crisis, structural changes in the fixed-income markets have reduced trading liquidity (the degree to which assets can be bought or sold without affecting the price). New regulations and capital requirements have caused traditional liquidity suppliers (banks and broker/dealers) to be more risk-averse and hold less inventory. Meanwhile, corporate debt issuance has spiked as companies finance themselves at record-low yields, bond mutual funds hold larger amounts of this new debt supply, trading volumes are lower, and large-size trades are more difficult to execute. However, fixed-income markets appeared to function well over the past year with sufficient liquidity.

Don't let short-term uncertainty derail long-term investment goals.
Periods of uncertainty can present challenges, but experience has taught us that maintaining long-term investment goals can be an effective way to plan for the future. Although diversification cannot guarantee an investment profit or prevent losses, we believe it can be an effective way to manage investment risk and potentially smooth out overall portfolio performance. We encourage investors to know their investments and to understand that appropriate levels of risk-taking may unlock opportunities.

Periods of uncertainty can present challenges, but experience has taught us that maintaining long-term investment goals can be an effective way to plan for the future.

Thank you for choosing to invest in Wells Fargo Funds. We appreciate your confidence in us and remain committed to helping you meet your financial needs.

Sincerely,

Karla M. Rabusch

Karla M. Rabusch
President
Wells Fargo Funds

Notice to shareholders

The Fund's Board of Trustees has approved the commencement prior to or during the week of May 1, 2017, of a cash tender offer for up to 15% of the Fund's outstanding common shares of beneficial interest at a price per share equal to 98% of the Fund's net asset value (NAV) per share. The Fund will repurchase shares tendered and accepted in the tender offer in exchange for cash. Repurchases pursuant to the tender offer will occur no earlier than May 1, 2017.

The Board has also approved the commencement, effective with the monthly distribution declared in January 2017, of a managed distribution plan that provides for the declaration of monthly distributions to common shareholders of the Fund at an annual minimum fixed rate of 9% based on the Fund's average monthly NAV per share over the prior 12 months. Under the managed distribution plan, monthly distributions may be sourced from income, paid-in capital, and/or capital gains, if any. To the extent that sufficient investment income is not available on a monthly basis, the Fund may distribute paid-in capital and/or capital gains, if any, in order to maintain its managed distribution level. You should not draw any conclusions about the Fund's investment performance from the amount of the Fund's distributions or from the terms of the managed distribution plan. Shareholders may elect to reinvest distributions received pursuant to the managed distribution plan in the Fund under the existing dividend reinvestment plan, which is described later in this report.

For further information about your Fund, contact your investment professional, visit our website at **wellsfargofunds.com**, or call us directly at **1-800-222-8222**. We are available 24 hours a day, 7 days a week.

Investment objective

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

Adviser

Wells Fargo Funds Management, LLC

Subadvisers

First International Advisors, LLC
Wells Capital Management Incorporated

Portfolio managers

Ashok Bhatia, CFA®
Christopher Y. Kauffman, CFA®
Michael Lee
Niklas Nordenfelt, CFA®
Tony Norris
Alex Perrin
Phillip Susser
Christopher Wightman
Peter Wilson
Noah Wise

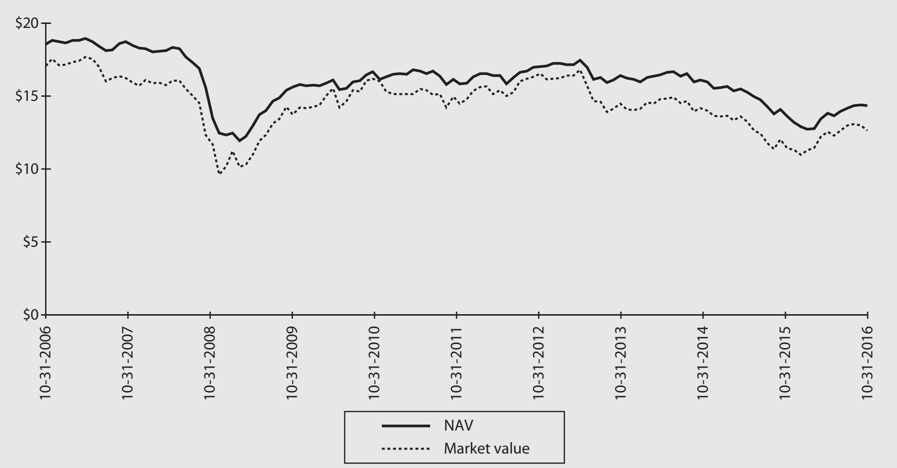
Average annual total returns (%) as of October 31, 2016[1]

	1 Year	5 Year	10 Year
Based on market value	15.66	5.20	6.85
Based on net asset value (NAV)	12.00	6.23	7.31
ERC Blended Index[2]	9.45	4.63	5.70

Figures quoted represent past performance, which is no guarantee of future results, *and do not reflect taxes that a shareholder may pay on fund distributions or the sales of fund shares. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted, which assumes the reinvestment of dividends and capital gains. Performance figures of the Fund do not reflect brokerage commissions that a shareholder would pay on the purchase and sale of shares. If taxes and such brokerage commissions had been reflected, performance would have been lower. To obtain performance information current to the most recent month-end, please call 1-800-222-8222.*

The Fund's expense ratio for the year ended October 31, 2016, was 1.39% which includes 0.44% of interest expense.

Comparison of NAV vs. market value[3]



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 non-correlation 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 Fund is exposed to mortgage- and asset-backed securities risk. This closed-end fund is no longer available 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.

Please see footnotes on page 6.

MANAGERS' DISCUSSION

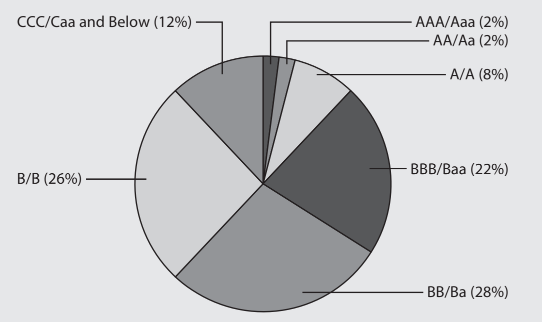
The Fund's return based on market value was 15.66% for the 12-month period that ended October 31, 2016. During the same period, the Fund's return based on its net asset value (NAV) was 12.00%. Based on its NAV return, the Fund outperformed the ERC Blended Index which returned 9.45% for the 12-month period that ended October 31, 2016.

Overview

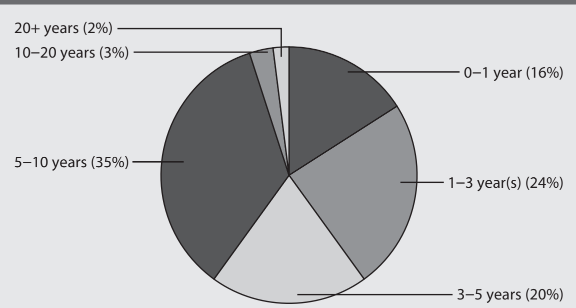
Within the mortgage/corporate bond market, BBB-rated bonds in particular did well amid strong demand for yield. Within the securitized sector, both commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (MBS) outperformed U.S. Treasuries. Meanwhile, the high-yield bond market also had positive results. While the market was up over the entire 12-month period, the path was not linear. High-yield bond returns fell during the three months that ended January 31, 2016 before rallying from January 31, 2016 to October 31, 2016. The loan market was more stable than the high-yield market. Energy and other commodity-related issues were responsible for much of the early-period losses because commodity prices generally fell. Global bond markets performed well during the reporting period. Smaller and emerging markets bond markets performed particularly well. The Fund's allocation to higher-yielding markets was increased over the reporting period. Positions in the bond and currency markets of Indonesia, Colombia, Brazil, and Mexico were added to the Fund rather than low-yielding Poland and Thailand markets.

Ten largest holdings (%) as of October 31, 2016[4]	
Brazil, 10.00%, 1-1-2017	2.01
Indonesia, 7.88%, 4-15-2019	1.78
NGPL PipeCo LLC, 7.77%, 12-15-2037	1.76
Republic of South Africa, 8.00%, 12-21-2018	1.63
Brazil, 10.00%, 1-1-2025	1.62
Indonesia, 8.38%, 9-15-2026	1.52
Greektown Holdings LLC, 8.88%, 3-15-2019	1.36
Mexico, 5.75%, 3-5-2026	1.31
Republic of South Africa, 7.75%, 2-28-2023	1.25
Colombia, 7.00%, 5-4-2022	1.05

Credit quality as of October 31, 2016[5]



Effective maturity distribution as of October 31, 2016[6]



Contributors to performance

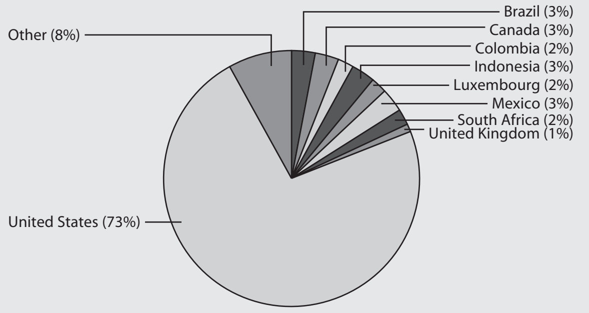
Securitized holdings added value during the period, and the allocation to CMBS was the largest contributor. Senior MBS holdings with higher credit ratings also contributed to results because higher-rated securities outperformed lower-rated ones. The high-yield portion of the Fund benefited from both a sizeable exposure and solid security selection in the midstream energy industry. This portion was also helped to a lesser extent by an allocation to the health care, technology, wireless, and oil-field services industries. Within the international portion of the Fund, allocations to smaller and emerging bond markets such as Brazil, Indonesia, and South Africa added value during the reporting period. Similarly, allocations to emerging markets currencies—particularly the Brazilian real—were beneficial.

Detractors from performance

Issue selection within MBS and CMBS positions modestly detracted from performance during the period due to security specific prepayment and ratings changes. Allocations to the metals and mining and oil-field services industries detracted from results within the credit sector. Given the strong performance of the high-yield market, there were few sectors within this portion of the Fund that did not contribute to its total return. The underweight to the metals and mining and exploration and production sectors relative to the Merrill Lynch U.S. High Yield Master II index was the largest detractor from performance as many of the metals and mining companies that were downgraded to high yield rebounded upon entering the Index. A relatively short duration position in the international portion of the Fund detracted slightly from performance.

Please see footnotes on page 6.

Country allocation as of October 31, 2016[6]



Outlook

We expect the economy is likely to improve at a consistent pace and interest rates are likely to rise as the Federal Reserve reduces its exceptionally accommodative stance. Within U.S. mortgages and investment-grade corporate bonds, we see opportunities within the credit and securitized sectors given current valuations. In particular, we expect to continue to focus on the medium-quality credit tiers of A-rated and BBB-rated securities as compelling sources of yield. Our credit exposure remains centered on industrials and financials, particularly banks.

Our outlook expects high-yield bonds will likely remain relatively stable and potentially outperform other fixed-income asset classes that may be more affected by a rising interest-rate environment. In the long run, we expect high yield's relative performance will be primarily driven by corporate fundamentals and defaults. In the near term, with the exception of the energy and other commodity sectors, our default outlook remains fairly benign. Over a full cycle, we believe the best way to mitigate against periodic bouts of systemic fears and rebalancing is by following a bottom-up investment process that attempts to minimize downside risk while capturing the return potential of high-yield issuers.

Global growth remains low, despite on-going record monetary stimulus in developed economies. Sub-trend growth has resulted in a prolonged economic cycle as central banks have refrained from excessive monetary tightening for fear of damaging what growth there has been. Such a backdrop is not new, and is not likely to change in the near term. Many years of low (and in some places negative) interest rates has encouraged risk taking in a search for yield that has stretched valuations in many asset classes. We continue to believe that the U.S. dollar is near the end of its strengthening cycle and that smaller-country currencies will outperform it. We prefer allocations to smaller and emerging bond markets where valuations are not as stretched.

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1 Total returns based on market value are calculated assuming a purchase of common stock on the first day and sale on the last day of the period reported. Total returns based on NAV are calculated based on the NAV at the beginning of the period and end of the period. Dividends and distributions, if any, are assumed for the purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan.

2 Source: Wells Fargo Funds Management, LLC. The ERC Blended Index is weighted 7.5% Bloomberg Barclays Credit Bond Index, 7.5% Bloomberg Barclays U.S. Securitized Index, 60.0% BofA Merrill Lynch High Yield U.S. Corporates, Cash Pay Index, 18.0% J.P. Morgan GBI-EM Global Diversified Composite Index, and 7.0% J.P. Morgan Global Government Bond Index (ex U.S.). The Bloomberg Barclays Credit Bond Index (formerly Barclays Credit Bond Index) is an unmanaged index of fixed income securities composed of securities from the Bloomberg Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The Bloomberg Barclays U.S. Securitized Index (formerly 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 BofA Merrill Lynch 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. 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.

3 This chart does not reflect any brokerage commissions charged on the purchase and sale of the Fund's common stock. Dividends and distributions paid by the Fund are included in the Fund's average annual total returns but have the effect of reducing the Fund's NAV.

4 The ten largest holdings, excluding cash and cash equivalents, are calculated based on the value of the investments divided by total net assets of the Fund. Holdings are subject to change and may have changed since the date specified.

5 The credit quality distribution of portfolio holdings reflected in the chart is based on ratings from Standard & Poor's, Moody's Investors Service, and/or Fitch Ratings Ltd. Credit quality ratings apply to the underlying holdings of the Fund and not to the Fund itself. The percentages of the Fund's portfolio with the ratings depicted in the chart are calculated based on the total market value of fixed income securities held by the Fund. If a security was rated by all three rating agencies, the middle rating was utilized. If rated by two of three rating agencies, the lower rating was utilized, and if rated by one of the rating agencies, that rating was utilized. Standard & Poor's rates the creditworthiness of bonds, ranging 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. Standard & Poor's rates the creditworthiness of short-term notes from SP-1 (highest) to SP-3 (lowest). Moody's rates the creditworthiness of bonds, ranging 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. Moody's rates the creditworthiness of short-term U.S. tax-exempt municipal securities from MIG 1/VMIG 1 (highest) to SG (lowest). Fitch rates the creditworthiness of bonds, ranging from AAA (highest) to D (lowest). Credit quality distribution is subject to change and may have changed since the date specified.

6 Amounts are calculated based on the total long-term investments of the Fund. These amounts are subject to change and may have changed since the date specified.

The Summary portfolio of investments shows the 50 largest portfolio holdings in unaffiliated issuers and any holdings exceeding 1% of the total net assets as of the report date. The remaining securities held are grouped as "Other securities" in each category.

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Agency Securities: 2.40%					
FHLMC	0.92-8.50%	4-25-2020 to 7-25-2048	$ 20,003,939	$ 13,113,197	2.21%
Other securities				1,094,676	0.19
Total Agency Securities (Cost $13,364,030)				14,207,873	2.40
Asset-Backed Securities: 0.10%					
Other securities				614,130	0.10
Total Asset-Backed Securities (Cost $591,768)				614,130	0.10
Common Stocks: 0.09%					
Energy: 0.09%					
Oil, Gas & Consumable Fuels: 0.09%					
Other securities				529,568	0.09
Materials: 0.00%					
Chemicals: 0.00%					
Other securities				716	0.00
Total Common Stocks (Cost $4,298,197)				530,284	0.09
Corporate Bonds and Notes: 73.02%					
Consumer Discretionary: 13.34%					
Auto Components: 1.09%					
Other securities				6,446,830	1.09
Distributors: 0.16%					
Other securities				923,625	0.16
Diversified Consumer Services: 0.81%					
Other securities				4,814,385	0.81
Hotels, Restaurants & Leisure: 2.43%					
CCM Merger Incorporated 144A	9.13	5-1-2019	4,560,000	4,765,200	0.81
Greektown Holdings LLC 144A	8.88	3-15-2019	7,625,000	8,063,438	1.37
Other securities				1,512,690	0.25
				14,341,328	2.43
Household Durables: 0.23%					
Other securities				1,341,550	0.23
Internet & Direct Marketing Retail: 0.14%					
Other securities				841,088	0.14
Leisure Products: 0.11%					
Other securities				630,060	0.11

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Media: 6.75%					
CCO Holdings LLC	5.13-6.63%	1-31-2022 to 5-1-2026	$ 8,945,000	$ 9,318,292	1.57%
CCO Holdings LLC 144A	5.38	5-1-2025	4,150,000	4,264,125	0.72
Gray Television Incorporated 144A	5.88	7-15-2026	3,875,000	3,855,625	0.65
Other securities				22,456,582	3.81
				39,894,624	6.75
Multiline Retail: 0.11%					
Other securities				626,477	0.11
Specialty Retail: 1.43%					
Other securities				8,441,545	1.43
Textiles, Apparel & Luxury Goods: 0.08%					
Other securities				500,000	0.08
Consumer Staples: 1.31%					
Beverages: 0.14%					
Other securities				820,613	0.14
Food & Staples Retailing: 0.11%					
Other securities				644,031	0.11
Food Products: 0.89%					
Other securities				5,258,574	0.89
Household Products: 0.04%					
Other securities				268,125	0.04
Tobacco: 0.13%					
Other securities				755,576	0.13
Energy: 19.02%					
Energy Equipment & Services: 5.60%					
Bristow Group Incorporated	6.25	10-15-2022	4,480,000	3,572,800	0.61
NGPL PipeCo LLC	7.12-9.63	12-15-2017 to 6-1-2019	2,495,000	2,603,657	0.44
NGPL PipeCo LLC 144A	7.77	12-15-2037	9,490,000	10,391,550	1.76
PHI Incorporated	5.25	3-15-2019	5,675,000	5,462,188	0.92
Other securities				11,035,429	1.87
				33,065,624	5.60
Oil, Gas & Consumable Fuels: 13.42%					
EnLink Midstream LLC	4.15-4.40	4-1-2024 to 6-1-2025	6,150,000	6,060,132	1.03
Rockies Express Pipeline LLC 144A	5.63	4-15-2020	4,450,000	4,666,938	0.79
Rockies Express Pipeline LLC 144A	6.88	4-15-2040	3,624,000	3,778,020	0.64
Rockies Express Pipeline LLC 144A	7.50	7-15-2038	2,390,000	2,569,250	0.43
Sabine Pass Liquefaction LLC	5.63-5.88	2-1-2021 to 6-30-2026	5,795,000	6,145,951	1.04
Sabine Pass Liquefaction LLC	6.25	3-15-2022	3,550,000	3,887,250	0.66
SemGroup Corporation	7.50	6-15-2021	3,450,000	3,527,625	0.60
Tallgrass Energy Partners LP 144A	5.50	9-15-2024	4,400,000	4,378,000	0.74

The accompanying notes are an integral part of these financial statements.

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Oil, Gas & Consumable Fuels (continued)					
Ultra Petroleum Corporation 144A(s)	6.13%	10-1-2024	$ 6,325,000	$ 5,376,250	0.91%
Other securities				38,886,718	6.58
				79,276,134	13.42
Financials: 7.84%					
Banks: 0.89%					
Other securities				5,276,518	0.89
Capital Markets: 1.04%					
Other securities				6,133,923	1.04
Consumer Finance: 2.92%					
Springleaf Finance Corporation	6.00-8.25	9-15-2017 to 10-1-2023	4,245,000	4,358,957	0.74
Springleaf Finance Corporation	6.90	12-15-2017	4,550,000	4,766,125	0.81
Other securities				8,136,688	1.37
				17,261,770	2.92
Diversified Financial Services: 1.10%					
Other securities				6,464,003	1.10
Insurance: 1.89%					
Hub International Limited 144A	7.88	10-1-2021	3,950,000	4,048,750	0.69
Other securities				7,103,841	1.20
				11,152,591	1.89
Health Care: 6.30%					
Biotechnology: 0.14%					
Other securities				799,881	0.14
Health Care Equipment & Supplies: 1.09%					
Other securities				6,447,684	1.09
Health Care Providers & Services: 3.71%					
Select Medical Corporation	6.38	6-1-2021	4,065,000	4,038,325	0.68
Other securities				17,897,404	3.03
				21,935,729	3.71
Health Care Technology: 0.91%					
Change Healthcare Holdings Incorporated	11.00	12-31-2019	4,400,000	4,620,000	0.78
Other securities				757,313	0.13
				5,377,313	0.91
Life Sciences Tools & Services: 0.14%					
Other securities				832,995	0.14
Pharmaceuticals: 0.31%					
Other securities				1,796,451	0.31

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Industrials: 4.02%					
Aerospace & Defense: 0.18%					
Other securities				$ 1,048,918	0.18%
Airlines: 0.36%					
Other securities				2,148,604	0.36
Commercial Services & Supplies: 1.30%					
Other securities				7,683,142	1.30
Construction & Engineering: 0.50%					
Other securities				2,982,473	0.50
Professional Services: 0.15%					
Other securities				874,856	0.15
Road & Rail: 0.11%					
Other securities				658,799	0.11
Trading Companies & Distributors: 1.42%					
Ashtead Capital Incorporated 144A	6.50%	7-15-2022	$ 4,650,000	4,876,688	0.83
Other securities				3,500,656	0.59
				8,377,344	1.42
Information Technology: 5.84%					
Communications Equipment: 0.33%					
Other securities				1,926,199	0.33
Electronic Equipment, Instruments & Components: 1.37%					
Jabil Circuit Incorporated	8.25	3-15-2018	5,275,000	5,697,000	0.96
Other securities				2,383,409	0.41
				8,080,409	1.37
Internet Software & Services: 0.23%					
Other securities				1,390,141	0.23
IT Services: 0.23%					
Other securities				1,356,325	0.23
Semiconductors & Semiconductor Equipment: 0.66%					
Other securities				3,876,941	0.66
Software: 0.43%					
Other securities				2,562,919	0.43
Technology Hardware, Storage & Peripherals: 2.59%					
Diamond 1 Finance Corporation 144A	5.88	6-15-2021	2,825,000	2,962,640	0.50
Diamond 1 Finance Corporation 144A	7.13	6-15-2024	5,400,000	5,916,467	1.00
NCR Corporation	6.38	12-15-2023	5,125,000	5,419,688	0.92
Other securities				1,032,357	0.17
				15,331,152	2.59

The accompanying notes are an integral part of these financial statements.

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Materials: 1.64%					
Chemicals: 0.20%					
Other securities				$ 1,209,658	0.20%
Containers & Packaging: 1.40%					
Other securities				8,285,644	1.40
Metals & Mining: 0.04%					
Other securities				211,250	0.04
Real Estate: 4.85%					
Equity REITs: 4.27%					
DuPont Fabros Technology Incorporated LP	5.63%	6-15-2023	$ 2,975,000	3,131,188	0.53
DuPont Fabros Technology Incorporated LP	5.88	9-15-2021	4,655,000	4,876,113	0.82
Other securities				17,242,476	2.92
				25,249,777	4.27
Real Estate Management & Development: 0.58%					
Other securities				3,434,000	0.58
Telecommunication Services: 6.32%					
Diversified Telecommunication Services: 2.08%					
Other securities				12,287,128	2.08
Wireless Telecommunication Services: 4.24%					
Sprint Capital Corporation	6.88	11-15-2028	6,500,000	5,957,659	1.01
Sprint Capital Corporation	8.75	3-15-2032	875,000	896,602	0.15
Syniverse Holdings Incorporated	9.13	1-15-2019	4,650,000	3,720,000	0.63
T-Mobile USA Incorporated	6.00-6.84	4-28-2019 to 1-15-2026	4,920,000	5,225,579	0.88
T-Mobile USA Incorporated	6.73	4-28-2022	3,490,000	3,655,775	0.62
Other securities				5,610,197	0.95
				25,065,812	4.24
Utilities: 2.54%					
Electric Utilities: 0.45%					
Other securities				2,667,647	0.45
Independent Power & Renewable Electricity Producers: 1.85%					
TerraForm Power Operating LLC 144A	9.38	2-1-2023	5,425,000	5,423,373	0.92
TerraForm Power Operating LLC 144A	9.63	6-15-2025	1,850,000	1,910,125	0.32
Other securities				3,584,886	0.61
				10,918,384	1.85
Multi-Utilities: 0.24%					
Other securities				1,429,770	0.24
Total Corporate Bonds and Notes (Cost $411,249,073)				431,426,339	73.02

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Foreign Corporate Bonds and Notes @: 2.61%					
Consumer Discretionary: 0.15%					
Auto Components: 0.02%					
Other securities				$ 117,415	0.02%
Internet & Direct Marketing Retail: 0.04%					
Other securities				237,442	0.04
Media: 0.09%					
Other securities				540,315	0.09
Consumer Staples: 0.15%					
Food Products: 0.15%					
Other securities				912,907	0.15
Energy: 0.25%					
Energy Equipment & Services: 0.02%					
Other securities				114,484	0.02
Oil, Gas & Consumable Fuels: 0.23%					
Other securities				1,364,150	0.23
Financials: 1.61%					
Banks: 1.56%					
KfW (TRY)	5.00%	1-16-2017	11,400,000	3,647,411	0.62
Other securities				5,588,144	0.94
				9,235,555	1.56
Diversified Financial Services: 0.05%					
Other securities				260,977	0.05
Materials: 0.12%					
Chemicals: 0.12%					
Other securities				693,725	0.12
Telecommunication Services: 0.33%					
Diversified Telecommunication Services: 0.07%					
Other securities				391,614	0.07
Wireless Telecommunication Services: 0.26%					
Other securities				1,533,396	0.26
Total Foreign Corporate Bonds and Notes (Cost $20,226,869)				15,401,980	2.61
Foreign Government Bonds @: 23.26%					
Brazil (BRL)	10.00	1-1-2017	38,525,000	12,057,710	2.04
Brazil (BRL)	10.00	1-1-2025	32,800,000	9,555,891	1.62
Brazil (BRL)	10.00	1-1-2027	11,500,000	3,322,545	0.56
Colombia (COP)	7.00	9-11-2019	18,500,000,000	6,219,796	1.05

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Foreign Government Bonds @ (continued)					
Colombia (COP)	7.00%	5-4-2022	18,650,000,000	$ 6,230,840	1.05%
Colombia (COP)	7.50	8-26-2026	14,000,000,000	4,692,397	0.79
Colombia (COP)	7.75	4-14-2021	5,250,000,000	1,842,035	0.31
Hungary (HUF)	6.75	11-24-2017	1,305,000,000	4,948,594	0.84
Indonesia (IDR)	7.88	4-15-2019	133,640,000,000	10,512,238	1.78
Indonesia (IDR)	8.38	9-15-2026	110,000,000,000	8,969,527	1.52
Indonesia (IDR)	10.00	7-15-2017	50,000,000,000	3,942,803	0.67
Malaysia (MYR)	3.66	10-15-2020	20,700,000	4,986,341	0.84
Malaysia (MYR)	4.18	7-15-2024	19,850,000	4,878,709	0.83
Mexico (MXN)	4.75	6-14-2018	113,800,000	5,957,223	1.01
Mexico (MXN)	5.75	3-5-2026	152,000,000	7,757,034	1.31
Mexico (MXN)	6.50-10.00	6-10-2021 to 12-5-2024	54,100,000	3,090,679	0.53
Mexico (MXN)	10.00	12-5-2024	62,120,000	4,087,280	0.69
Queensland Treasury (AUD)	5.75	7-22-2024	4,100,000	3,829,164	0.65
Republic of South Africa (ZAR)	7.75	2-28-2023	103,000,000	7,401,410	1.25
Republic of South Africa (ZAR)	8.00	12-21-2018	129,000,000	9,603,235	1.63
Turkey (TRY)	6.30	2-14-2018	7,325,000	2,292,724	0.39
Turkey (TRY)	9.00	3-8-2017	13,600,000	4,402,941	0.74
Other securities				6,830,375	1.16
Total Foreign Government Bonds (Cost $157,944,241)				137,411,491	23.26
Loans: 14.93%					
Consumer Discretionary: 3.67%					
Auto Components: 0.39%					
Other securities				2,335,979	0.39
Distributors: 0.50%					
Other securities				2,969,419	0.50
Hotels, Restaurants & Leisure: 0.45%					
Other securities				2,642,804	0.45
Household Products: 0.18%					
Other securities				1,059,883	0.18
Internet & Direct Marketing Retail: 0.86%					
Other securities				5,060,001	0.86
Leisure Products: 0.35%					
Other securities				2,073,538	0.35
Media: 0.80%					
Other securities				4,702,480	0.80
Multiline Retail: 0.03%					
Other securities				161,902	0.03
Specialty Retail: 0.11%					
Other securities				655,368	0.11

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Consumer Staples: 0.15%					
Food Products: 0.15%					
Other securities				$ 895,490	0.15%
Energy: 1.15%					
Energy Equipment & Services: 0.80%					
Hummel Station LLC ±	7.00%	10-27-2022	$ 4,929,434	4,699,377	0.80
Oil, Gas & Consumable Fuels: 0.35%					
Other securities				2,068,750	0.35
Financials: 1.20%					
Capital Markets: 0.20%					
Other securities				1,204,223	0.20
Consumer Finance: 0.03%					
Other securities				201,052	0.03
Diversified Financial Services: 0.77%					
Other securities				4,551,609	0.77
Insurance: 0.20%					
Other securities				1,150,218	0.20
Health Care: 1.80%					
Health Care Equipment & Supplies: 0.40%					
Other securities				2,349,403	0.40
Health Care Providers & Services: 1.02%					
Other securities				6,007,834	1.02
Health Care Technology: 0.18%					
Other securities				1,089,862	0.18
Life Sciences Tools & Services: 0.08%					
Other securities				474,744	0.08
Pharmaceuticals: 0.12%					
Other securities				721,174	0.12
Industrials: 2.17%					
Aerospace & Defense: 0.50%					
Other securities				2,990,938	0.50
Commercial Services & Supplies: 1.49%					
Other securities				8,792,300	1.49
Machinery: 0.11%					
Other securities				631,428	0.11

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Transportation Infrastructure: 0.07%					
Other securities				$ 406,556	0.07%
Information Technology: 1.37%					
Internet Software & Services: 0.46%					
Other securities				2,716,800	0.46
Semiconductors & Semiconductor Equipment: 0.22%					
Other securities				1,273,138	0.22
Software: 0.10%					
Other securities				598,416	0.10
Technology Hardware, Storage & Peripherals: 0.59%					
Other securities				3,486,943	0.59
Materials: 0.20%					
Containers & Packaging: 0.20%					
Other securities				1,170,105	0.20
Real Estate: 0.84%					
Equity REITs: 0.15%					
Other securities				850,817	0.15
Real Estate Management & Development: 0.69%					
Other securities				4,091,450	0.69
Telecommunication Services: 1.40%					
Diversified Telecommunication Services: 0.75%					
Other securities				4,418,508	0.75
Wireless Telecommunication Services: 0.65%					
Other securities				3,877,605	0.65
Utilities: 0.98%					
Electric Utilities: 0.98%					
Texas Competitive Electric Holdings Company LLC ±(s)	4.66%	10-10-2017	$ 20,096,983	5,818,077	0.98
Total Loans (Cost $101,800,665)				88,198,191	14.93
Municipal Obligations: 0.05%					
New York: 0.05%					
Other securities				269,114	0.05
Total Municipal Obligations (Cost $270,000)				269,114	0.05
Non-Agency Mortgage-Backed Securities: 5.44%					
Other securities				32,166,136	5.44
Total Non-Agency Mortgage-Backed Securities (Cost $32,339,819)				32,166,136	5.44

The accompanying notes are an integral part of these financial statements.

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Yankee Corporate Bonds and Notes: 9.04%					
Consumer Discretionary: 0.50%					
Media: 0.50%					
Other securities				$ 2,920,357	0.50%
Consumer Staples: 0.27%					
Beverages: 0.14%					
Other securities				832,919	0.14
Tobacco: 0.13%					
Other securities				784,441	0.13
Energy: 1.97%					
Energy Equipment & Services: 0.35%					
Other securities				2,039,701	0.35
Oil, Gas & Consumable Fuels: 1.62%					
Teekay Corporation	8.50%	1-15-2020	$ 5,625,000	5,118,750	0.87
Other securities				4,483,019	0.75
				9,601,769	1.62
Financials: 0.98%					
Banks: 0.78%					
Other securities				4,588,951	0.78
Diversified Financial Services: 0.20%					
Other securities				1,198,746	0.20
Health Care: 1.89%					
Pharmaceuticals: 1.89%					
Valeant Pharmaceuticals International Incorporated	5.63-7.50	10-15-2020 to 5-15-2023	5,555,000	4,568,200	0.78
Valeant Pharmaceuticals International Incorporated 144A	6.13	4-15-2025	6,300,000	4,851,000	0.82
Other securities				1,732,168	0.29
				11,151,368	1.89
Industrials: 0.81%					
Building Products: 0.04%					
Other securities				226,275	0.04
Commercial Services & Supplies: 0.59%					
Other securities				3,506,688	0.59
Machinery: 0.04%					
Other securities				240,875	0.04
Road & Rail: 0.14%					
Other securities				819,138	0.14

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Information Technology: 0.26%					
Communications Equipment: 0.13%					
Other securities				$ 781,420	0.13%
Internet Software & Services: 0.13%					
Other securities				752,619	0.13
Materials: 0.47%					
Containers & Packaging: 0.13%					
Other securities				764,875	0.13
Metals & Mining: 0.34%					
Other securities				2,023,247	0.34
Telecommunication Services: 1.77%					
Diversified Telecommunication Services: 1.54%					
Intelsat Jackson Holdings SA	5.50%	8-1-2023	$ 6,775,000	4,488,438	0.76
Other securities				4,601,155	0.78
				9,089,593	1.54
Wireless Telecommunication Services: 0.23%					
Other securities				1,388,819	0.23
Utilities: 0.12%					
Electric Utilities: 0.12%					
Other securities				687,375	0.12
Total Yankee Corporate Bonds and Notes (Cost $62,609,732)				53,399,176	9.04
	Yield		Shares		
Short-Term Investments: 5.65%					
Investment Companies: 5.65%					
Wells Fargo Government Money Market Fund Select Class (l)(u)##	0.32		33,404,630	33,404,630	5.65
Total Short-Term Investments (Cost $33,404,630)				33,404,630	5.65
Total investments in securities (Cost $838,099,024) *				807,029,344	136.59
Other assets and liabilities, net				(216,189,225)	(36.59)
Total net assets				$590,840,119	100.00%

144A The security may be resold in transactions exempt from registration, normally to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933.

(s) The security is currently in default with regards to scheduled interest and/or principal payments. The Fund has stopped accruing interest on the security.

@ Foreign bond principal is denominated in the local currency of the issuer.

± Variable rate investment. The rate shown is the rate in effect at period end.

(l) The issuer of the security is an affiliated person of the Fund as defined in the Investment Company Act of 1940.

(u) The rate represents the 7-day annualized yield at period end.

All or a portion of this security is segregated for when-issued securities and unfunded loans.

* Cost for federal income tax purposes is $843,539,182 and unrealized gains (losses) consists of:

Gross unrealized gains	$ 33,235,110
Gross unrealized losses	(69,744,948)
Net unrealized losses	$(36,509,838)

The accompanying notes are an integral part of these financial statements.

Assets	
Investments	
In unaffiliated securities, at value (cost $804,694,394)	$ 773,624,714
In affiliated securities, at value (cost $33,404,630)	33,404,630
Total investments, at value (cost $838,099,024)	807,029,344
Cash	2,025,000
Foreign currency, at value (cost $242)	234
Receivable for investments sold	2,920,372
Principal paydown receivable	7,154
Receivable for interest	11,702,330
Prepaid expenses and other assets	12,322
Total assets	823,696,756
Liabilities	
Dividends payable	3,824,265
Payable for investments purchased	7,324,538
Payable for Fund shares repurchased	985,505
Secured borrowing payable	220,000,000
Advisory fee payable	380,540
Administration fee payable	34,595
Accrued expenses and other liabilities	307,194
Total liabilities	232,856,637
Total net assets	**$590,840,119**

NET ASSETS CONSIST OF

Paid-in capital	$ 730,854,766
Overdistributed net investment income	(3,954,254)
Accumulated net realized losses on investments	(105,001,927)
Net unrealized losses on investments	(31,058,466)
Total net assets	**$590,840,119**

NET ASSET VALUE PER SHARE

Based on $590,840,119 divided by 41,163,066 shares issued and outstanding (100,000,000 shares authorized)	$14.35

Investment income	
Interest (net of foreign withholding taxes of $225,988)	$ 53,222,237
Income from affiliated securities	94,060
Dividends	45,123
Total investment income	53,361,420
Expenses	
Advisory fee	4,367,469
Administration fee	397,043
Custody and accounting fees	195,695
Professional fees	244,428
Shareholder report expenses	100,532
Trustees' fees and expenses	26,694
Transfer agent fees	44,178
Interest expense	2,521,181
Other fees and expenses	37,218
Total expenses	7,934,438
Net investment income	45,426,982

REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS

Net realized losses on:	
Unaffiliated securities	(10,394,693)
Forward foreign currency contract transactions	(729,490)
Net realized losses on investments	(11,124,183)
Net change in unrealized gains (losses) on:	
Unaffiliated securities	23,664,826
Forward foreign currency contract transactions	924,680
Net change in unrealized gains (losses) on investments	24,589,506
Net realized and unrealized gains (losses) on investments	13,465,323
Net increase in net assets resulting from operations	**$58,892,305**

	Year ended October 31, 2016	Year ended October 31, 2015
Operations		
Net investment income	$ 45,426,982	$ 46,469,815
Net realized losses on investments	(11,124,183)	(15,988,489)
Net change in unrealized gains (losses) on investments	24,589,506	(67,320,520)
Net increase (decrease) in net assets resulting from operations	58,892,305	(36,839,194)
Distributions to shareholders from		
Net investment income	(40,758,130)	(36,559,777)
Tax basis return of capital	(6,993,269)	(12,379,627)
Total distributions to shareholders	(47,751,399)	(48,939,404)
Capital share transactions		
Cost of shares repurchased	(11,526,575)	0
Net decrease in net assets resulting from capital share transactions	(11,526,575)	0
Total decrease in net assets	(385,669)	(85,778,598)
Net assets		
Beginning of period	**591,225,788**	**677,004,386**
End of period	**$590,840,119**	**$591,225,788**
Overdistributed net investment income	**$ (3,954,254)**	**$ (4,610,988)**

Cash flows from operating activities:	
Net increase in net assets resulting from operations	$ 58,892,305
Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:	
Purchase of securities	(276,081,554)
Proceeds from the sales of securities	312,428,579
Paydowns	9,356,943
Amortization	(3,424,154)
Purchase of short-term securities, net	(18,832,853)
Decrease in receivable for investments sold	1,963,436
Decrease in principal paydown receivable	38
Decrease in receivable for interest	1,379,917
Decrease in prepaid expenses and other assets	3,369
Decrease in payable for investments purchased	(2,615,386)
Decrease in advisory fee payable	(14,720)
Decrease in administration fee payable	(1,338)
Decrease in accrued expenses and other liabilities	(16,113)
Litigation payments received	7,389
Net realized losses on investments	11,124,183
Net change in unrealized gains (losses) on investments	(24,589,506)
Net cash provided by operating activities	69,580,535
Cash flows from financing activities:	
Decrease in secured borrowing payable	(10,000,000)
Cost of shares repurchased	(10,541,070)
Cash distributions paid	(47,993,853)
Net cash used in financing activities	(68,534,923)
Net increase in cash	1,045,612
Cash (including foreign currency):	
Beginning of period	$ 979,622
End of period	$ 2,025,234
Supplemental cash disclosure	
Cash paid for interest	$ 2,476,704

The accompanying notes are an integral part of these financial statements.

(For a share outstanding throughout each period)

	Year ended October 31				
	2016	2015	2014	2013	2012
Net asset value, beginning of period	**$14.06**	**$16.10**	**$16.40**	**$17.01**	**$16.16**
Net investment income	1.08	1.10[1]	1.14[1]	1.18	1.16
Net realized and unrealized gains (losses) on investments	0.33	(1.98)	(0.24)	(0.59)	0.89
Total from investment operations	1.41	(0.88)	0.90	0.59	2.05
Distributions to shareholders from					
Net investment income	(0.97)	(0.87)	(0.91)	(1.20)	(1.20)
Tax basis return of capital	(0.17)	(0.29)	(0.29)	0.00	0.00
Total distributions to shareholders	(1.14)	(1.16)	(1.20)	(1.20)	(1.20)
Anti-dilutive effect of shares repurchased	**0.02**	**0.00**	**0.00**	**0.00**	**0.00**
Net asset value, end of period	**$14.35**	**$14.06**	**$16.10**	**$16.40**	**$17.01**
Market value, end of period	**$12.66**	**$12.02**	**$14.19**	**$14.47**	**$16.54**
Total return based on market value[2]	**15.66%**	**(7.34)%**	**6.55%**	**(5.44)%**	**19.33%**
Ratios to average net assets (annualized)					
Net expenses[3]	1.39%	1.24%	1.21%	1.24%	1.24%
Net investment income[3]	7.94%	7.33%	6.95%	7.04%	7.13%
Supplemental data					
Portfolio turnover rate	29%	31%	41%	40%	78%
Net assets, end of period (000s omitted)	$590,840	$591,226	$677,004	$689,573	$715,368
Borrowings outstanding, end of period (000s omitted)	$220,000	$230,000	$230,000	$230,000	$230,000
Asset coverage per $1,000 of borrowing, end of period	$3,686	$3,570	$3,944	$3,998	$4,110

1 Calculated based upon average shares outstanding

2 Total return is calculated assuming a purchase of common stock on the first day and sale on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan. Total return does not reflect brokerage commissions that a shareholder would pay on the purchase and sale of shares.

3 Ratios include interest expense relating to interest associated with borrowings and/or leverage transactions as follows:

Year ended October 31, 2016	0.44%
Year ended October 31, 2015	0.24%
Year ended October 31, 2014	0.07%
Year ended October 31, 2013	0.07%
Year ended October 31, 2012	0.11%

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION

Wells Fargo Multi-Sector Income Fund (the "Fund") was organized as a statutory trust under the laws of the state of Delaware on April 10, 2003 and is registered as a diversified closed-end management investment company under the Investment Company Act of 1940, as amended. As an investment company, the Fund follows the accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 946, *Financial Services – Investment Companies*.

2. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies, which are consistently followed in the preparation of the financial statements of the Fund, are in conformity with U.S. generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities valuation

All investments are valued each business day as of the close of regular trading on the New York Stock Exchange (generally 4 p.m. Eastern Time), although the Fund may deviate from this calculation time under unusual or unexpected circumstances.

Debt securities are valued at the evaluated bid price provided by an independent pricing service or, if a reliable price is not available, the quoted bid price from an independent broker-dealer.

Equity securities that are listed on a foreign or domestic exchange or market are valued at the official closing price or, if none, the last sales price. If no sale occurs on the principal exchange or market that day, the prior day's price will be deemed "stale" and a fair value price will be determined in accordance with the Fund's Valuation Procedures.

The values of securities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team of Wells Fargo Funds Management, LLC ("Funds Management").

Investments in registered open-end investment companies are valued at net asset value.

Investments which are not valued using any of the methods discussed above are valued at their fair value, as determined in good faith by the Board of Trustees of the Fund. The Board of Trustees has established a Valuation Committee comprised of the Trustees and has delegated to it the authority to take any actions regarding the valuation of portfolio securities that the Valuation Committee deems necessary or appropriate, including determining the fair value of portfolio securities, unless the determination has been delegated to the Management Valuation Team. The Board of Trustees retains the authority to make or ratify any valuation decisions or approve any changes to the Valuation Procedures as it deems appropriate. On a quarterly basis, the Board of Trustees receives reports on any valuation actions taken by the Valuation Committee or the Management Valuation Team which may include items for ratification.

Valuations of fair valued securities are compared to the next actual sales price when available, or other appropriate market values, to assess the continued appropriateness of the fair valuation methodologies used. These securities are fair valued on a day-to-day basis, taking into consideration changes to appropriate market information and any significant changes to the inputs considered in the valuation process until there is a readily available price provided on an exchange or by an independent pricing service. Valuations received from an independent pricing service or independent broker-dealer quotes are periodically validated by comparisons to most recent trades and valuations provided by other independent pricing services in addition to the review of prices by the adviser and/or subadviser. Unobservable inputs used in determining fair valuations are identified based on the type of security, taking into consideration factors utilized by market participants in valuing the investment, knowledge about the issuer and the current market environment.

Foreign currency translation

The accounting records of the Fund are maintained in U.S. dollars. The values of other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team. Purchases and sales of securities, and income and expenses are converted at the rate of exchange on the respective dates of such transactions. Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded and the U.S. dollar equivalent of the amounts actually paid or received. Net unrealized foreign exchange gains and losses arise from changes in the fair value of assets and liabilities other than investments in securities resulting from changes in exchange rates. The changes in net assets arising from changes in exchange rates and the changes in net assets resulting from changes in market prices of securities are not separately presented. Such changes are included in net realized and unrealized gains or losses from investments.

Forward foreign currency contracts

The Fund is subject to foreign currency exchange rate risk in the normal course of pursuing its investment objectives. A forward foreign currency contract is an agreement between two parties to purchase or sell a specific currency for an agreed-upon price at a future date. The Fund enters into forward foreign currency contracts to facilitate transactions in foreign-denominated securities and to attempt to minimize the risk to the Fund from adverse changes in the relationship between currencies. Forward foreign currency contracts are recorded at the forward rate and marked-to-market daily. When the contracts are closed, realized gains and losses arising from such transactions are recorded as realized gains or losses on forward foreign currency contract transactions. The Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably. The Fund's maximum risk of loss from counterparty credit risk is the unrealized gains or losses on the contracts. This risk may be mitigated if there is a master netting arrangement between the Fund and the counterparty.

When-issued transactions

The Fund may purchase securities on a forward commitment or when-issued basis. The Fund records a when-issued transaction on the trade date and will segregate assets in an amount at least equal in value to the Fund's commitment to purchase when-issued securities. Securities purchased on a when-issued basis are marked-to-market daily and the Fund begins earning interest on the settlement date. Losses may arise due to changes in the market value of the underlying securities or if the counterparty does not perform under the contract.

Loans

The Fund may invest in direct debt instruments which are interests in amounts owed to lenders by corporate or other borrowers. The loans pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. Investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties. When the Fund purchases participations, it generally has no rights to enforce compliance with terms of the loan agreement with the borrower. As a result, the Fund assumes the credit risk of both the borrower and the lender that is selling the participation. When the Fund purchases assignments from lenders, it acquires direct rights against the borrower on the loan and may enforce compliance by the borrower with the terms of the loan agreement. Loans may include fully funded term loans or unfunded loan commitments, which are contractual obligations for future funding.

Security transactions and income recognition

Securities transactions are recorded on a trade date basis. Realized gains or losses are recorded on the basis of identified cost.

Interest income is accrued daily and bond discounts are accreted and premiums are amortized daily based on the effective interest method. To the extent debt obligations are placed on non-accrual status, any related interest income may be reduced by writing off interest receivables when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. If the issuer subsequently resumes interest payments or when the collectability of interest is reasonably assured, the debt obligation is removed from non-accrual status.

Dividend income is recognized on the ex-dividend date.

Income from foreign securities is recorded net of foreign taxes withheld where recovery of such taxes is not assured.

Distributions to shareholders

Distributions to shareholders from net investment income and net realized gains, if any, are recorded on the ex-dividend date. Such distributions are determined in conformity with federal income tax regulations, which may differ in amount or character from net investment income and realized gains recognized for purposes of U.S. generally accepted accounting principles.

Federal and other taxes

The Fund intends to continue to qualify as a regulated investment company by distributing substantially all of its investment company taxable income and any net realized capital gains (after reduction for capital loss carryforwards) sufficient to relieve it from all, or substantially all, federal income taxes. Accordingly, no provision for federal income taxes was required.

The Fund's income and federal excise tax returns and all financial records supporting those returns for the prior three fiscal years are subject to examination by the federal and Delaware revenue authorities. Management has analyzed the Fund's tax positions taken on federal, state, and foreign tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability.

Reclassifications are made to the Fund's capital accounts for permanent tax differences to reflect income and gains available for distribution (or available capital loss carryforwards) under federal income tax regulations. U.S. generally accepted accounting principles require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or the net asset value per share. The primary permanent differences causing such reclassifications are due to bond premiums, foreign currency transactions, and paydown losses. At October 31, 2016, as a result of permanent book-to-tax differences, the following reclassification adjustments were made on the Statement of Assets and Liabilities:

Overdistributed net investment income	Accumulated net realized losses on investments
$(4,012,118)	$4,012,118

Capital loss carryforwards that do not expire are required to be utilized prior to capital loss carryforwards that expire. As of October 31, 2016, capital loss carryforwards available to offset future net realized capital gains were as follows through the indicated expiration dates:

	No expiration	
2018	Short-term	Long-term
$86,701,155	$2,682,399	$10,251,593

3. FAIR VALUATION MEASUREMENTS

Fair value measurements of investments are determined within a framework that has established a fair value hierarchy based upon the various data inputs utilized in determining the value of the Fund's investments. The three-level hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to significant unobservable inputs (Level 3). The Fund's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The inputs are summarized into three broad levels as follows:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, use of amortized cost, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodologies used for valuing investments in securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets and liabilities as of October 31, 2016:

	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Investments in:				
Agency securities	$ 0	$ 14,207,873	$ 0	$ 14,207,873
Asset-backed securities	0	614,130	0	614,130
Common stocks				
Energy	529,568	0	0	529,568
Materials	716	0	0	716
Corporate bonds and notes	0	431,426,339	0	431,426,339
Foreign corporate bonds and notes	0	15,401,980	0	15,401,980
Foreign government bonds	0	137,411,491	0	137,411,491
Loans	0	82,571,653	5,626,538	88,198,191
Municipal obligations	0	269,114	0	269,114
Non-agency mortgage-backed securities	0	32,166,136	0	32,166,136
Yankee corporate bonds and notes	0	53,391,883	7,293	53,399,176
Short-term investments				
Investment companies	33,404,630	0	0	33,404,630
Total assets	**$33,934,914**	**$767,460,599**	**$5,633,831**	**$807,029,344**

The Fund recognizes transfers between levels within the fair value hierarchy at the end of the reporting period. At October 31, 2016, the Fund did not have any transfers into/out of Level 1. The Fund had no material transfers between Level 2 and Level 3.

4. TRANSACTIONS WITH AFFILIATES

Advisory fee

Funds Management, an indirect wholly owned subsidiary of Wells Fargo & Company ("Wells Fargo"), is the adviser to the Fund and is entitled to receive a fee at an annual rate of 0.55% of the Fund's average daily total assets. Total assets consist of net assets of the Fund plus borrowings or other leverage for investment purposes to the extent excluded in calculating net assets.

Funds Management has retained the services of certain subadvisers to provide daily portfolio management to the Fund. The fees for subadvisory services are borne by Funds Management. Wells Capital Management Incorporated, an affiliate of Funds Management and an indirect wholly owned subsidiary of Wells Fargo, is a subadviser to the Fund and is entitled to receive a fee from Funds Management at an annual rate of 0.30% of the Fund's average daily total assets. First International Advisors, LLC, an affiliate of Funds Management and an indirect wholly owned subsidiary of Wells Fargo, is also a subadviser to the Fund and is entitled to receive a fee from Funds Management at an annual rate of 0.10% of the Fund's average daily total assets.

Administration fee

Funds Management also serves as the administrator to the Fund, providing the Fund with a wide range of administrative services necessary to the operation of the Fund. Funds Management is entitled to receive an annual administration fee from the Fund equal to 0.05% of the Fund's average daily total assets.

5. CAPITAL SHARE TRANSACTIONS

The Fund has authorized capital of 100,000,000 shares with no par value. For the year ended October 31, 2016 and the year ended October 31, 2015, the Fund did not issue any shares.

On December 17, 2015, the Fund announced an open-market share repurchase program (the “Buyback Program”). Under the Buyback Program, the Fund may repurchase up to 10% of its outstanding shares within one year of December 17, 2015. The Fund’s Board of Trustees has delegated to Funds Management full discretion to administer the Buyback Program including the determination of the amount and timing of repurchases in accordance with the best interests of the Fund and subject to applicable legal limitations. During the year ended October 31, 2016, the Fund purchased 891,934 of its shares on the open market at a total cost of $11,526,575 (weighted average price per share of $12.91). The weighted average discount of these repurchased shares was 10.12%.

6. BORROWINGS

The Fund has borrowed $220 million through a revolving credit facility administered by a major financial institution (the “Facility”). The Facility has a commitment amount of $230 million with no specific contract expiration date but the Facility can be terminated upon 180 days’ notice. The Fund is charged interest at London Interbank Offered Rate (LIBOR) plus 0.70% and a commitment fee of 0.30% of the average daily unutilized amount of the commitment which may be waived if the amount drawn on the Facility is over 75% of the committed amount.

At October 31, 2016, the Fund had average borrowings outstanding in the amount of $222,377,049. During the year ended October 31, 2016, an effective interest rate of 1.14% was incurred on the borrowings and the Fund incurred interest expense in the amount of $2,521,181, representing 0.44% of the Fund’s average daily net assets.

7. INVESTMENT PORTFOLIO TRANSACTIONS

Purchases and sales of investments, excluding U.S. government obligations (if any) and short-term securities, for the year ended October 31, 2016 were $249,526,262 and $225,569,172, respectively.

As of October 31, 2016, the Fund had unfunded term loan commitments of $3,355,688.

The Fund may purchase or sell investment securities to other Wells Fargo funds under procedures adopted by the Board of Trustees. The procedures have been designed to ensure that these interfund transactions, which generally do not incur broker commissions, are effected at current market prices. Interfund trades are included within the respective purchases and sales amounts shown.

8. DERIVATIVE TRANSACTIONS

During the year ended October 31, 2016, the Fund entered into forward foreign currency contracts for economic hedging purposes.

As of October 31, 2016, the Fund did not have any open forward foreign currency contracts but had average contract amounts of $682,347 and $3,620,031 in forward foreign currency contracts to buy and forward foreign currency contracts to sell, respectively, during the year ended October 31, 2016.

The fair value, realized gains or losses and change in unrealized gains or losses, if any, on derivative instruments are reflected in the appropriate financial statements.

9. DISTRIBUTIONS TO SHAREHOLDERS

The tax character of distributions paid during the years ended October 31, 2016 and October 31, 2015 were as follows:

	Year ended October 31	
	2016	2015
Ordinary income	$40,758,130	$36,559,777
Tax basis return of capital	6,993,269	12,379,627

As of October 31, 2016, the components of distributable earnings on a tax basis were as follows:

Unrealized losses	Capital loss carryforward
$(36,498,624)	$(99,635,147)

10. INDEMNIFICATION

Under the Fund's organizational documents, the officers and Trustees have been granted certain indemnification rights against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund may enter into contracts with service providers that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated.

11. NEW ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments (a Consensus of the Emerging Issues Task Force),* which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Management is currently assessing the potential impact on the financial statements that may result from adopting this ASU. This ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those financial years, with early adoption permitted.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash (a Consensus of the Emerging Issues Task Force),* which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts general described as restricted cash or restricted cash equivalents. Amounts described as restricted cash and restricted cash equivalents should be included with the cash and cash equivalents in reconciling the beginning and end of period total amounts shown on the statement of cash flows. Management is currently assessing the potential impact on the financial statements that may result from adopting this ASU. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017.

12. REGULATORY CHANGES

In October 2016, the Securities and Exchange Commission ("SEC") adopted new rules and forms and amended existing rules and forms (together, "final rules") intended to modernize and enhance the reporting and disclosure of information by registered investment companies and to enhance liquidity risk management by open-end mutual funds and exchange-traded funds. The final rules will enhance the quality of information available to investors and will allow the SEC to more effectively collect and use data reported by funds. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in the Fund's financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017 while the compliance date for the new form types is June 1, 2018 and the compliance date for the liquidity risk management program requirements is December 1, 2018. Management is currently assessing the potential impact of these enhancements and their impact on the financial statement disclosures and reporting requirements.

13. SUBSEQUENT DISTRIBUTIONS

The Fund declared the following distributions to shareholders:

Declaration date	Record date	Payable date	Per share amount
October 28, 2016	November 16, 2016	December 1, 2016	$0.0923
November 16, 2016	December 14, 2016	January 3, 2017	0.0923

These distributions are not reflected in the accompanying financial statements. The final determination of the source of all distributions is subject to change and made after the Fund's tax year-end.

14. SUBSEQUENT EVENTS

The Board of Trustees has approved, the commencement prior to or during the week of May 1, 2017, of a cash tender offer for up to 15% of the Fund's outstanding common shares of beneficial interest at a price per share equal to 98% of the Fund's net asset value (NAV) per share. The Fund will repurchase shares tendered and accepted in the tender offer in exchange for cash. Repurchases pursuant to the tender offer will occur no earlier than May 1, 2017.

In addition, the Board of Trustees has also approved the commencement, effective with the monthly distribution declared in January 2017, of a managed distribution plan that provides for the declaration of monthly distributions to common shareholders of the Fund at an annual minimum fixed rate of 9% based on the Fund's average monthly NAV per share over the prior 12 months. Under the managed distribution plan, monthly distributions may be sourced from income, paid-in capital, and/or capital gains, if any. To the extent that sufficient investment income is not available on a monthly basis, the Fund may distribute paid-in capital and/or capital gains, if any, in order to maintain its managed distribution level.

BOARD OF TRUSTEES AND SHAREHOLDERS OF WELLS FARGO MULTI-SECTOR INCOME FUND:

We have audited the accompanying statement of assets and liabilities, including the summary portfolio of investments, of the Wells Fargo Multi-Sector Income Fund (the "Fund"), as of October 31, 2016, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2016, by correspondence with the custodian and brokers, or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Wells Fargo Multi-Sector Income Fund as of October 31, 2016, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
December 22, 2016

TAX INFORMATION

For the fiscal year ended October 31, 2016, $29,467,120 has been designated as interest-related dividends for nonresident alien shareholders pursuant to Section 871 of the Internal Revenue Code.

PROXY VOTING INFORMATION

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available, upon request, by calling **1-800-222-8222**, visiting our website at **wellsfargofunds.com**, or visiting the SEC website at sec.gov. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available on the Fund's website at **wellsfargofunds.com** or by visiting the SEC website at sec.gov.

PORTFOLIO HOLDINGS INFORMATION

The complete portfolio holdings for the Fund are publicly available monthly on the Fund's website (**wellsfargofunds.com**), on a one-month delayed basis. The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q, which is available by visiting the SEC website at sec.gov. In addition, the Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC, and at regional offices in New York City, at 233 Broadway, and in Chicago, at 175 West Jackson Boulevard, Suite 900. Information about the Public Reference Room may be obtained by calling 1-800-SEC-0330.

BOARD OF TRUSTEES AND OFFICERS

The following table provides basic information about the Board of Trustees (the "Trustees") and Officers of the Fund. Each of the Trustees and Officers[1] listed below acts in identical capacities for each fund in the Wells Fargo family of funds, which consists of 139 mutual funds comprising the Wells Fargo Funds Trust, Wells Fargo Variable Trust, Wells Fargo Master Trust, and four closed-end funds, including the Fund (collectively the "Fund Complex"). The mailing address of each Trustee and Officer is 525 Market Street, 12th Floor, San Francisco, CA 94105. The Board of Trustees is classified into three classes of which one is elected annually. Each Trustee serves a three-year term concurrent with the class from which the Trustee is elected. Each Officer serves an indefinite term.

Independent Trustees

Name and year of birth	Position held and length of service	Principal occupations during past five years or longer	Current other public company or investment company directorships
Class I - Non-Interested Trustees to serve until 2017 Annual Meeting of Shareholders			
Isaiah Harris, Jr. (Born 1952)	Trustee, since 2010	Retired. Chairman of the Board of CIGNA Corporation since 2009, and Director since 2005. From 2003 to 2011, Director of Deluxe Corporation. Prior thereto, President and CEO of BellSouth Advertising and Publishing Corp. from 2005 to 2007, President and CEO of BellSouth Enterprises from 2004 to 2005 and President of BellSouth Consumer Services from 2000 to 2003. Emeritus member of the Iowa State University Foundation Board of Governors. Emeritus Member of the Advisory Board of Iowa State University School of Business. Advisory Board Member, Palm Harbor Academy (charter school). Advisory Board Member, Child Evangelism Fellowship (non-profit). Mr. Harris is a certified public accountant (inactive status).	CIGNA Corporation; Asset Allocation Trust
David F. Larcker (Born 1950)	Trustee, since 2010	James Irvin Miller Professor of Accounting at the Graduate School of Business, Stanford University, Director of the Corporate Governance Research Initiative and Senior Faculty of The Rock Center for Corporate Governance since 2006. From 2005 to 2008, Professor of Accounting at the Graduate School of Business, Stanford University. Prior thereto, Ernst & Young Professor of Accounting at The Wharton School, University of Pennsylvania from 1985 to 2005.	Asset Allocation Trust
Olivia S. Mitchell (Born 1953)	Trustee, since 2010	International Foundation of Employee Benefit Plans Professor, Wharton School of the University of Pennsylvania since 1993. Director of Wharton's Pension Research Council and Boettner Center on Pensions & Retirement Research, and Research Associate at the National Bureau of Economic Research. Previously, Cornell University Professor from 1978 to 1993.	Asset Allocation Trust
Class II - Non-Interested Trustees to serve until 2018 Annual Meeting of Shareholders			
William R. Ebsworth (Born 1957)	Trustee, since 2015	Retired. From 1984 to 2013, equities analyst, portfolio manager, research director and chief investment officer at Fidelity Management and Research Company in Boston, Tokyo, and Hong Kong and retired in 2013 as Chief Investment Officer of Fidelity Strategic Advisers, Inc. where he lead a team of investment professionals managing client assets. Prior thereto, Board member of Hong Kong Securities Clearing Co., Hong Kong Options Clearing Corp., the Thailand International Fund, Ltd., Fidelity Investments Life Insurance Company, and Empire Fidelity Investments Life Insurance Company. Mr. Ebsworth is a CFA® charterholder and an Adjunct Lecturer, Finance, at Babson College.	Asset Allocation Trust
Jane A. Freeman (Born 1953)	Trustee, since 2015	Retired. From 2012 to 2014 and 1999 to 2008, Chief Financial Officer of Scientific Learning Corporation. From 2008 to 2012, Ms. Freeman provided consulting services related to strategic business projects. Prior to 1999, Portfolio Manager at Rockefeller & Co. and Scudder, Stevens & Clark. Board member of the Harding Loevner Funds from 1996 to 2014, serving as both Lead Independent Director and chair of the Audit Committee. Board member of the Russell Exchange Traded Funds Trust from 2011 to 2012 and the chair of the Audit Committee. Ms. Freeman is a Board Member of Ruth Bancroft Garden (non-profit organization) and an inactive chartered financial analyst.	Asset Allocation Trust

Name and year of birth	Position held and length of service	Principal occupations during past five years or longer	Current other public company or investment company directorships
Judith M. Johnson (Born 1949)	Trustee, since 2010; Audit Committee Chairman, since 2010	Retired. Prior thereto, Chief Executive Officer and Chief Investment Officer of Minneapolis Employees Retirement Fund from 1996 to 2008. Ms. Johnson is an attorney, certified public accountant and a certified managerial accountant.	Asset Allocation Trust
Class III - Non-Interested Trustees to serve until 2019 Annual Meeting of Shareholders			
Peter G. Gordon* (Born 1942)	Trustee, since 2010; Chairman, since 2010	Co-Founder, Retired Chairman, President and CEO of Crystal Geyser Water Company. Trustee Emeritus, Colby College.	Asset Allocation Trust
Timothy J. Penny (Born 1951)	Trustee, since 2010	President and Chief Executive Officer of Southern Minnesota Initiative Foundation, a non-profit organization, since 2007 and Senior Fellow at the Humphrey Institute Policy Forum at the University of Minnesota since 1995. Member of the Board of Trustees of NorthStar Education Finance, Inc., a non-profit organization, since 2007.	Asset Allocation Trust
Michael S. Scofield (Born 1943)	Trustee, since 2007	Served on the Investment Company Institute's Board of Governors and Executive Committee from 2008-2011 as well the Governing Council of the Independent Directors Council from 2006-2011 and the Independent Directors Council Executive Committee from 2008-2011. Chairman of the IDC from 2008-2010. Institutional Investor (Fund Directions) Trustee of Year in 2007. Trustee of the Evergreen Funds complex (and its predecessors) from 1984 to 2010. Chairman of the Evergreen Funds from 2000-2010. Former Trustee of the Mentor Funds. Retired Attorney, Law Offices of Michael S. Scofield.	Asset Allocation Trust

* Peter Gordon is expected to retire on December 31, 2017.

Officers

Name and year of birth	Position held and length of service	Principal occupations during past five years or longer
Karla M. Rabusch (Born 1959)	President, since 2010	Executive Vice President of Wells Fargo Bank, N.A. and President of Wells Fargo Funds Management, LLC since 2003.
Jeremy DePalma[1] (Born 1974)	Treasurer, since 2012	Senior Vice President of Wells Fargo Funds Management, LLC since 2009. Senior Vice President of Evergreen Investment Management Company, LLC from 2008 to 2010 and head of the Fund Reporting and Control Team within Fund Administration from 2005 to 2010.
C. David Messman (Born 1960)	Secretary, since 2010; Chief Legal Officer, since 2010	Senior Vice President and Secretary of Wells Fargo Funds Management, LLC since 2001. Assistant General Counsel of Wells Fargo Bank, N.A. since 2013 and Vice President and Managing Counsel of Wells Fargo Bank, N.A. from 1996 to 2013.
Michael Whitaker[2] (Born 1967)	Chief Compliance Officer, since 2016	Executive Vice President of Wells Fargo Funds Management, LLC since 2016. Chief Compliance Officer of Fidelity's Fixed Income Funds and Asset Allocation Funds from 2008 to 2016, Compliance Officer of FMR Co., Inc. from 2014 to 2016, Fidelity Investments Money Management, Inc. from 2014 to 2016, Fidelity Investments from 2007 to 2016.
David Berardi (Born 1975)	Assistant Treasurer, since 2009	Vice President of Wells Fargo Funds Management, LLC since 2009. Vice President of Evergreen Investment Management Company, LLC from 2008 to 2010. Manager of Fund Reporting and Control for Evergreen Investment Management Company, LLC from 2004 to 2010.

1 Jeremy DePalma acts as Treasurer of 69 funds and Assistant Treasurer of 70 funds in the Fund Complex.

2 Michael Whitaker became Chief Compliance Officer effective May 16, 2016.

BOARD CONSIDERATION OF INVESTMENT ADVISORY AND SUB-ADVISORY AGREEMENTS:

Under the Investment Company Act of 1940 (the "1940 Act"), the Board of Trustees (the "Board") of Wells Fargo Multi-Sector Income Fund (the "Fund") must determine whether to approve the continuation of the Fund's investment advisory and sub-advisory agreements. In this regard, at an in-person meeting held on May 24-25, 2016 (the "Meeting"), the Board, all the members of which have no direct or indirect interest in the investment advisory and sub-advisory agreements and are not "interested persons" of the Fund, as defined in the 1940 Act (the "Independent Trustees"), reviewed and approved: (i) an investment advisory agreement with Wells Fargo Funds Management, LLC ("Funds Management"), (ii) an investment sub-advisory agreement with Wells Capital Management Incorporated ("WellsCap"), an affiliate of Funds Management; and (iii) an investment sub-advisory agreement with First International Advisors, LLC ("FIA"), an affiliate of Funds Management. The investment advisory agreement with Funds Management and the investment sub-advisory agreements with WellsCap and FIA (each, a "Sub-Adviser" and together, the "Sub-Advisers") are collectively referred to as the "Advisory Agreements."

At the Meeting, the Board considered the factors and reached the conclusions described below relating to the selection of Funds Management and the Sub-Advisers and the continuation of the Advisory Agreements. Prior to the Meeting, including at an in-person meeting in April 2016, the Trustees conferred extensively among themselves and with representatives of Funds Management about these matters. Also, the Board has adopted a team-based approach, with each team consisting of a sub-set of Trustees, to assist the full Board in the discharge of its duties in reviewing performance and other matters throughout the year. The Independent Trustees were assisted in their evaluation of the Advisory Agreements by independent legal counsel, from whom they received separate legal advice and with whom they met separately.

In providing information to the Board, Funds Management and the Sub-Advisers were guided by a detailed set of requests for information submitted to them by independent legal counsel on behalf of the Independent Trustees at the start of the Board's annual contract renewal process earlier in 2016. In considering and approving the Advisory Agreements, the Trustees considered the information they believed relevant, including but not limited to the information discussed below. The Board considered not only the specific information presented in connection with the Meeting, but also the knowledge gained over time through interaction with Funds Management and the Sub-Advisers about various topics. In this regard, the Board reviewed reports of Funds Management at each of its quarterly meetings, which included, among other things, portfolio reviews and performance reports. In addition, the Board and the teams mentioned above confer with portfolio managers at various times throughout the year. The Board did not identify any particular information or consideration that was all-important or controlling, and each individual Trustee may have attributed different weights to various factors.

After its deliberations, the Board unanimously approved the continuation of the Advisory Agreements and determined that the compensation payable to Funds Management and the Sub-Advisers is reasonable. The Board considered the continuation of the Advisory Agreements for the Fund as part of its consideration of agreements for funds across the complex, but its approvals were made on a fund-by-fund basis. The following summarizes a number of important, but not necessarily all, factors considered by the Board in support of its approvals.

Nature, extent and quality of services

The Board received and considered various information regarding the nature, extent and quality of services provided to the Fund by Funds Management and the Sub-Advisers under the Advisory Agreements. This information included, among other things, a summary of the background and experience of senior management of Funds Management, and the qualifications, background, tenure and responsibilities of each of the portfolio managers primarily responsible for the day-to-day portfolio management of the Fund.

The Board evaluated the ability of Funds Management and the Sub-Advisers to attract and retain qualified investment professionals, including research, advisory and supervisory personnel. The Board further considered the compliance programs and compliance records of Funds Management and the Sub-Advisers. In addition, the Board took into account the full range of services provided to the Fund by Funds Management and its affiliates.

Fund performance and expenses

The Board considered the performance results for the Fund over various time periods ended December 31, 2015. The Board considered these results in comparison to the performance of funds in a custom peer group that included funds selected by Broadridge Inc. ("Broadridge") and additional funds that were determined by Funds Management to be similar to the Fund (the "Custom Peer Group"), and in comparison to the Fund's benchmark index and to other comparative data. The Board received a description of the methodology used by Broadridge and Funds Management to select the funds in the Custom Peer Group and discussed the limitations inherent in the use of other peer groups. The

Board noted that the performance of the Fund was lower than the average performance of the Custom Peer Group for all periods under review except the ten-year period. The Board also noted that the performance of the Fund was higher than its benchmark, the ERC Blended Index, which is a proprietary index used by the Board to help it assess the Fund's relative performance, for all periods under review except the one-year period.

The Board also received and considered information regarding the Fund's net operating expense ratio and its various components, including actual management fees, and custodian and other non-management fees. The Board considered this ratio in comparison to the median ratio of funds in an expense group that was determined by Broadridge to be similar to the Fund (the "Group"). Broadridge is an independent provider of investment company data. The Board received a description of the methodology used by Broadridge to select the funds in the expense Group and an explanation of how funds comprising expense groups and their expense ratios may vary from year-to-year. Based on the Broadridge reports, the Board noted that the net operating expense ratio of the Fund was lower than the median net operating expense ratio of the expense Group.

The Board took into account the Fund performance and expense information provided to it among the factors considered in deciding to re-approve the Advisory Agreements.

Investment advisory and sub-advisory fee rates

The Board reviewed and considered the contractual investment advisory fee rate that is payable by the Fund to Funds Management for investment advisory services (the "Advisory Agreement Rate"), both on a stand-alone basis and on a combined basis with the Fund's contractual administration fee rate (the "Management Rate"). The Board also reviewed and considered the contractual investment sub-advisory fee rates that are payable by Funds Management to each of the Sub-Advisers for investment sub-advisory services (the "Sub-Advisory Agreement Rate").

Among other information reviewed by the Board was a comparison of the Management Rate of the Fund with those of other funds in the expense Group at a common asset level. The Board noted that the Management Rate of the Fund was lower than the average rate for the Fund's expense Group.

The Board also received and considered information about the portion of the total advisory fee that was retained by Funds Management after payment of the fee to the Sub-Advisers for sub-advisory services. In assessing the reasonableness of this amount, the Board received and evaluated information about the nature and extent of responsibilities retained and risks assumed by Funds Management and not delegated to or assumed by the Sub-Advisers, and about Funds Management's on-going oversight services. However, given the affiliation between Funds Management and the Sub-Advisers, the Board ascribed limited relevance to the allocation of the advisory fee between them.

Based on its consideration of the factors and information it deemed relevant, including those described here, the Board determined that the Advisory Agreement Rate and each Sub-Advisory Agreement Rate was reasonable, in light of the services covered by the Advisory Agreements.

Profitability

The Board received and considered information concerning the profitability of Funds Management, as well as the profitability of Wells Fargo as a whole, from providing services to the Fund and the fund family as a whole. The Board also received and considered information concerning the profitability of the Sub-Advisers from providing services to the fund family as a whole, noting that the Sub-Advisers' profitability information with respect to providing services to the Fund was subsumed in the Wells Fargo and Funds Management profitability analysis.

Funds Management reported on the methodologies and estimates used in calculating profitability. Among other things, the Board noted that the levels of profitability reported on a fund-by-fund basis varied widely, depending on factors such as the size and type of fund. Based on its review, the Board did not deem the profits reported by Funds Management or Wells Fargo from its services to the Fund to be at a level that would prevent it from approving the continuation of the Advisory Agreements.

Economies of scale

The Board considered the extent to which there may be sharing with the Fund of potential economies of scale in the provision of advisory services to the Fund. The Board noted that, as is typical of closed-end funds, there are no breakpoints in the Management Rate. Although the Fund would not share in any potential economies of scale through contractual breakpoints, the Board noted that fee waiver and expense reimbursement arrangements and competitive fee rates at the outset are means of sharing potential economies of scale with shareholders of the Fund and the fund family as a whole. The Board concluded that the Fund's fee waiver and expense arrangements constituted a reasonable approach to sharing potential economies of scale with the Fund and its shareholders. The Board also noted that it would have opportunities to revisit the Management Rate as part of future contract reviews.

Other benefits to Funds Management and the Sub-Advisers

The Board received and considered information regarding potential "fall-out" or ancillary benefits received by Funds Management and its affiliates, including the Sub-Advisers, as a result of their relationships with the Fund. Ancillary benefits could include, among others, benefits directly attributable to other relationships with the Fund and benefits potentially derived from an increase in Funds Management's and the Sub-Advisers' business as a result of their relationships with the Fund. The Board also reviewed information about soft dollar credits earned and utilized by WellsCap and commissions earned by affiliated brokers from portfolio transactions.

Based on its consideration of the factors and information it deemed relevant, including those described here, the Board did not find that any ancillary benefits received by Funds Management and its affiliates, including the Sub-Advisers, were unreasonable.

Conclusion

At the Meeting, after considering the above-described factors and based on its deliberations and its evaluation of the information described above, the Board unanimously approved the continuation of the Advisory Agreements for an additional one-year period and determined that the compensation payable to Funds Management and the Sub-Advisers is reasonable.

AUTOMATIC DIVIDEND REINVESTMENT PLAN

All common shareholders are eligible to participate in the Automatic Dividend Reinvestment Plan ("the Plan"). Pursuant to the Plan, unless a common shareholder is ineligible or elects otherwise, all cash dividends and capital gains distributions are automatically reinvested by Computershare Trust Company, N.A., as agent for shareholders in administering the Plan ("Plan Agent"), in additional common shares of the Fund. Whenever the Fund declares an ordinary income dividend or a capital gain dividend (collectively referred to as "dividends") payable either in shares or in cash, nonparticipants in the Plan will receive cash, and participants in the Plan will receive the equivalent in common shares. The shares are acquired by the Plan Agent for the participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund ("newly issued common shares") or (ii) by purchase of outstanding common shares on the open-market (open-market purchases) on the NYSE Amex or elsewhere. If, on the payment date for any dividend or distribution, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions ("market premium"), the Plan Agent will invest the amount of such dividend or distribution in newly issued shares on behalf of the participant. The number of newly issued common shares to be credited to the participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value ("market discount"), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends. The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 30170, College Station, Texas 77842-3170 or by calling 1-800-730-6001.

The following is a list of common abbreviations for terms and entities that may have appeared in this report.

ACA — ACA Financial Guaranty Corporation
ADR — American depositary receipt
ADS — American depositary shares
AGC — Assured Guaranty Corporation
AGM — Assured Guaranty Municipal
Ambac — Ambac Financial Group Incorporated
AMT — Alternative minimum tax
AUD — Australian dollar
BAN — Bond anticipation notes
BHAC — Berkshire Hathaway Assurance Corporation
BRL — Brazilian real
CAB — Capital appreciation bond
CAD — Canadian dollar
CCAB — Convertible capital appreciation bond
CDA — Community Development Authority
CDO — Collateralized debt obligation
CHF — Swiss franc
COP — Colombian peso
CLP — Chilean peso
DKK — Danish krone
DRIVER — Derivative inverse tax-exempt receipts
DW&P — Department of Water & Power
DWR — Department of Water Resources
ECFA — Educational & Cultural Facilities Authority
EDA — Economic Development Authority
EDFA — Economic Development Finance Authority
ETF — Exchange-traded fund
EUR — Euro
FDIC — Federal Deposit Insurance Corporation
FFCB — Federal Farm Credit Banks
FGIC — Financial Guaranty Insurance Corporation
FHA — Federal Housing Administration
FHLB — Federal Home Loan Bank
FHLMC — Federal Home Loan Mortgage Corporation
FICO — The Financing Corporation
FNMA — Federal National Mortgage Association
FSA — Farm Service Agency
GBP — Great British pound
GDR — Global depositary receipt
GNMA — Government National Mortgage Association
GO — General obligation
HCFR — Healthcare facilities revenue
HEFA — Health & Educational Facilities Authority
HEFAR — Higher education facilities authority revenue
HFA — Housing Finance Authority
HFFA — Health Facilities Financing Authority
HKD — Hong Kong dollar
HUD — Department of Housing and Urban Development
HUF — Hungarian forint
IDA — Industrial Development Authority
IDAG — Industrial Development Agency
IDR — Indonesian rupiah
IEP — Irish pound
JPY — Japanese yen
KRW — Republic of Korea won
LIBOR — London Interbank Offered Rate
LIFER — Long Inverse Floating Exempt Receipts
LIQ — Liquidity agreement
LLC — Limited liability company
LLLP — Limited liability limited partnership
LLP — Limited liability partnership
LOC — Letter of credit
LP — Limited partnership
MBIA — Municipal Bond Insurance Association
MFHR — Multifamily housing revenue
MSTR — Municipal securities trust receipts
MTN — Medium-term note
MUD — Municipal Utility District
MXN — Mexican peso
MYR — Malaysian ringgit
National — National Public Finance Guarantee Corporation
NGN — Nigerian naira
NOK — Norwegian krone
NZD — New Zealand dollar
PCFA — Pollution Control Financing Authority
PCL — Public Company Limited
PCR — Pollution control revenue
PFA — Public Finance Authority
PFFA — Public Facilities Financing Authority
PFOTER — Puttable floating option tax-exempt receipts
plc — Public limited company
PLN — Polish zloty
PUTTER — Puttable tax-exempt receipts
R&D — Research & development
Radian — Radian Asset Assurance
RAN — Revenue anticipation notes
RDA — Redevelopment Authority
RDFA — Redevelopment Finance Authority
REIT — Real estate investment trust
ROC — Reset option certificates
RON — Romanian lei
RUB — Russian ruble
SAVRS — Select auction variable rate securities
SBA — Small Business Authority
SDR — Swedish depositary receipt
SEK — Swedish krona
SFHR — Single-family housing revenue
SFMR — Single-family mortgage revenue
SGD — Singapore dollar
SPA — Standby purchase agreement
SPDR — Standard & Poor's Depositary Receipts
SPEAR — Short Puttable Exempt Adjustable Receipts
STRIPS — Separate trading of registered interest and principal securities
TAN — Tax anticipation notes
TBA — To be announced
THB — Thai baht
TIPS — Treasury inflation-protected securities
TRAN — Tax revenue anticipation notes
TRY — Turkish lira
TTFA — Transportation Trust Fund Authority
TVA — Tennessee Valley Authority
ZAR — South African rand

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