As of October 14, 2016, money market fund boards of directors (boards) have the discretion to impose liquidity fees and redemption gates (temporary suspension of redemptions) on prime and tax-exempt money market funds. This new rule is part of the latest effort by the U.S. Securities and Exchange Commission (SEC) to strengthen money market funds. Specifically, fees and gates are designed to reduce the incentive for shareholders to sell ahead of other shareholders in a liquidity crisis and to give money market fund boards more tools to use in the case of a future crisis.

We expect that prime money market funds remain a valuable short-term cash investment option for many investors, and we believe it is highly unlikely that fees and gates will be used for the following reasons:

- Fund managers will continue to prioritize the preservation of capital and liquidity, which means that prime and tax-exempt money market funds will operate much as they did before the new rules regarding floating net asset values (NAVs), fees, and gates became effective October 14, 2016.

- Given the reputational risk of imposing a fee or gate, fund managers may be even more cautious about approaching the minimum liquidity thresholds. The result may be that greater percentages of liquidity will be maintained in money market funds under the new rules.

- A money market fund board may impose a liquidity fee or redemption gate only if the fund’s liquidity falls below a designated threshold and doing so is in the shareholders’ best interest.

New SEC rules seek to ensure money market fund liquidity

One measure of liquidity is a fund’s weekly liquid assets as a percentage of its overall assets. Weekly liquid assets generally include securities that mature within seven days or are subject to a demand feature that is exercisable and payable within five business days, cash, direct obligations of the U.S. government, and government agency securities with remaining maturities of 60 days or less. For perspective, the bulk of weekly liquid assets in prime funds tends to be securities that mature overnight.

If weekly liquidity falls below 30%

If a prime or tax-exempt money market fund’s weekly liquid assets fall below 30% of its total assets, the money market fund’s board may decide at its discretion to impose a liquidity fee of up to 2% on all redemptions if the board determines that doing so is in the best interest of the fund shareholders.

If a prime or tax-exempt money market fund’s weekly liquid assets fall below 30% of its total assets, its board may also, at its discretion, temporarily suspend redemptions for a period of up to 10 business days if the board determines that doing so is in the best interest of the fund shareholders. Under the SEC rules, a board is never required to gate a fund, and money market funds that do so are not allowed to impose a gate for more than 10 business days in any 90-day period.
If weekly liquidity falls below 10%

If a prime or tax-exempt money market fund’s weekly liquid assets fall below 10% of its total assets, the fund’s board would be required to impose a liquidity fee of 1% on each shareholder’s redemption, unless the fund’s board determines that imposing no fee, or a lower or higher fee (up to 2%), is in the best interest of the fund shareholders.

Reasons for fees and gates

A **liquidity fee** may be charged to shareholders as described in the SEC rule. The fee would be paid to the money market fund, not the fund management company, to compensate shareholders who do not redeem shares during a difficult market environment. By charging shareholders a liquidity fee for access to funds, this rule seeks to discourage the first-mover advantage, whereby shareholders have an incentive to redeem shares first and leave others to hold less-liquid, lower-priced securities in the event of a crisis.

A **gate** refers to the temporary suspension of redemptions. It is specifically designed to stop a run on a fund and give the fund’s management team time to plan an orderly sale of securities and generate cash in the face of mounting redemptions.

Our prime funds’ past is prologue: Liquidity, fund flows, and risk oversight*

Our Wells Fargo prime money market funds have never breached the 30% threshold for weekly liquid assets since that measure was introduced by the SEC in 2010. Below we share a historical look at our prime money market funds’ weekly liquid asset levels and the reasons they have been able to maintain a high degree of liquidity.

Liquidity. The core of our investment philosophy has always focused on the preservation of capital and a high level of liquidity. It may be reassuring for shareholders to see that our prime money market fund’s liquidity levels have historically exceeded the threshold levels that would be subject to fees and gates. Charts 1 and 2 show our prime funds’ historical levels of weekly liquid assets as a percentage of each fund.

**Fund flows.** Similarly, inflows and outflows from our prime funds have historically been within a normal range of experience. We manage our money market fund flows with a number of tools, including duration decisions, plans for raising cash to meet redemptions or investing inflows, and knowing our shareholders’ liquidity requirements. In certain instances, our shareholders communicated large transactions in advance and worked closely with our portfolio management team on the timing of these transactions. We always endeavor to keep a significant level of liquidity available in our money market funds due to existing regulations, our existing investment strategy, and unforeseen circumstances to promote daily liquidity and preservation of principal.
**Risk oversight.** Stress-testing our money market funds’ ability to minimize NAV volatility amid hypothetical market events is another important tool as we seek to protect their liquidity and prices. The SEC’s new stress-testing rules (effective April 14, 2016) mandate that money market funds must test their ability to maintain weekly liquid assets of at least 10% and minimize principal volatility as measured by changes to NAV in specified hypothetical stress scenarios (events). These hypothetical events include increases in short-term interest rates, a downgrade or default of portfolio security positions, and a correlated increase in the credit spreads for certain portfolio securities, in combination with increases in shareholder redemptions.

Our stress tests not only meet the enhanced stress-testing requirements but continue to be more rigorous than required. (See our publication, Enhanced Stress Tests for Money Market Funds.) One example of how we go a step further is our practice of identifying the magnitude of each event that would cause a fund’s NAV or liquidity to breach threshold levels. Another example is built into our redemption stress-test methodology, where we consider how a portfolio manager would sell securities in an illiquid market, including deciding the likely order that assets would be sold and calculating the resulting asset sale loss on each security. We believe improved risk oversight from rigorous stress tests provides greater transparency and assurance that our fund’s principal stability and liquidity should be well protected.

**Next steps for shareholders**

1. Monitor money market fund websites to become more familiar with a fund’s typical levels of NAV volatility and liquidity. The SEC has required fund companies to report their funds’ liquidity percentages (both daily and weekly), market-based NAVs, and daily flows since April 14, 2016.

2. Consult with us about cash management needs. Below are some considerations that may be helpful:
   - Preservation of principal and daily liquidity will remain the most important aspects of this investment type. Accordingly, corporate treasurers will be able to continue to classify money market funds as cash investments, including prime money market funds.
   - A government money market fund—which will continue to have a stable NAV and not be subject to fees and gates—may be a suitable choice depending on an investor’s objectives and investment guidelines.
   - Prime money market funds have historically had higher yields than government money market funds.
   - For some investors, splitting their operating cash between a government fund and a prime fund may be a sound strategy.

3. Remember that fees and gates are tools that a money market fund’s board may use in times of severe market stress. However, they have a low probability of being used for a number of reasons. Not only are money market funds managed in accordance with SEC regulations to ensure high levels of liquidity and stability of principal but the reputational risk of imposing a fee or gate would be difficult to repair. As a result, we expect prime and tax-exempt money market funds will remain valuable short-term investment choices for clients needing liquidity solutions.

**For more information**

Please contact:

Institutional Sales Desk: 1-888-253-6584

Website: wellsfargofunds.com
(Click “Institutional Cash Management”)

---

3
Carefully consider a fund’s investment objectives, risks, charges, and expenses before investing. For a current prospectus and, if available, a summary prospectus, containing this and other information, visit wellsfargofunds.com. Read it carefully before investing.

For municipal income funds: A portion of the fund’s income may be subject to federal, state, and/or local income taxes or the Alternative Minimum Tax (AMT). Any capital gains distributions may be taxable.

For government funds: The U.S. government guarantee applies to certain underlying securities and not to shares of the fund.

*For floating NAV money market funds: You could lose money by investing in the fund. Because the share price of the fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund’s liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund’s sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

**For retail money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund’s liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund’s sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

***For government money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund’s sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Wells Fargo Asset Management (WFAM) is a trade name used by the asset management businesses of Wells Fargo & Company. Wells Fargo Funds Management, LLC, a wholly owned subsidiary of Wells Fargo & Company, provides investment advisory and administrative services for Wells Fargo Funds. Other affiliates of Wells Fargo & Company provide subadvisory and other services for the funds. The funds are distributed by Wells Fargo Funds Distributor, LLC, Member FINRA, an affiliate of Wells Fargo & Company. Neither Wells Fargo Funds Management nor Wells Fargo Funds Distributor has fund customer accounts/assets, and neither provides investment advice/recommendations or acts as an investment advice fiduciary to any investor. 301479 03-17

© 2017 Wells Fargo Funds Management, LLC. All rights reserved. FASS338 03-17

NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE