Short-term Market Update

Wells Fargo Securities - Fixed Income Market & Portfolio Strategy
August 2016

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Together we'll go far

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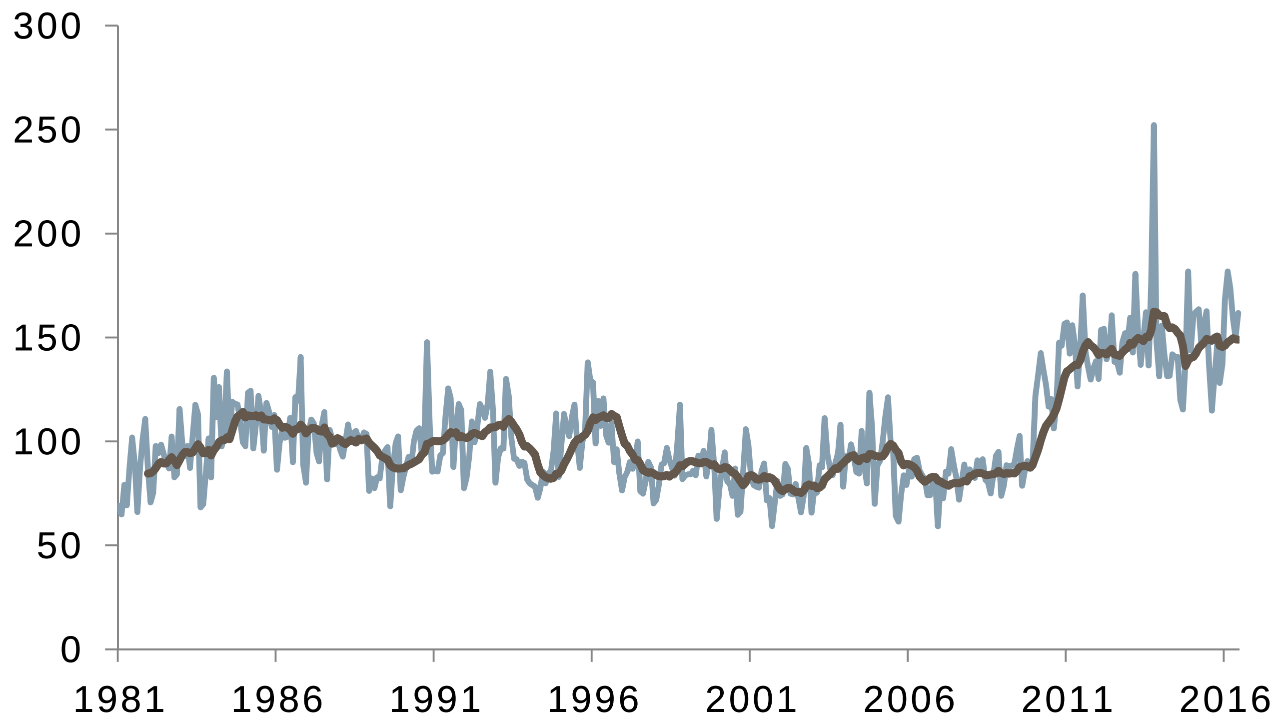
Election Politics and the Current Situation

Partisan Commentary In Media Reports Running High

The Partisan Conflict Index tracks the degree of political disagreement among U.S. politicians. The degree of conflict in the current political process has risen to, and is maintaining historically high readings.

Philadelphia Fed Partisan Index



Source: Philadelphia Federal Reserve Bank and Wells Fargo Securities, LLC

Current Polling of Presidential Election

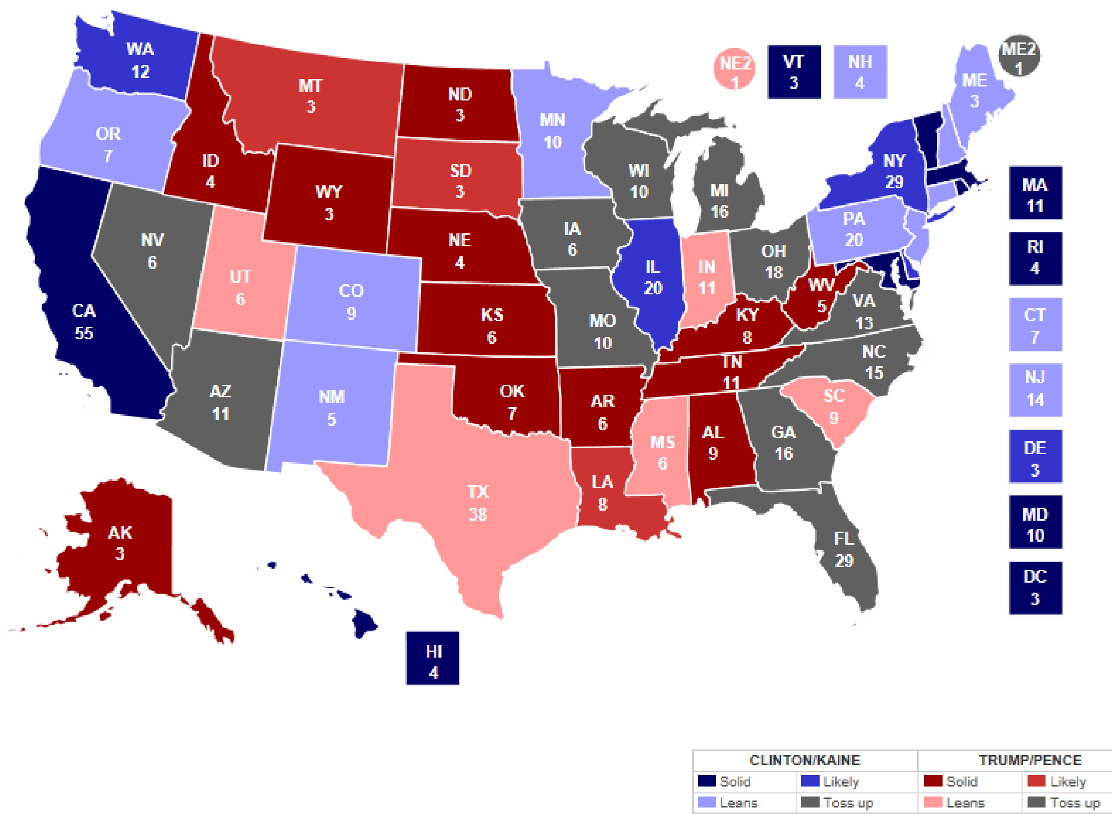
Early August Polling Data estimates the following polling data for electoral college votes:

Clinton: 233

Trump: 154

Toss Up: 151

RCP Presidential Election Map



Source: Real Clear Politics and Wells Fargo Securities, LLC

Current Bookmaking of Presidential Election

Apart from polling data, bookmakers place the odds on Clinton and Trump squarely in Clinton's favor...

Current Odds on Clinton and Trump

	Clinton	Trump
• Ladbrokes:	3/10	5/2
• William Hill:	1/3	23/1
• Betfair:	2/7	10/3
• Paddy Power:	2/7	5/2
• Sky Bet:	2/7	5/2

Source: The Guardian and Wells Fargo Securities, LLC

Current Polling of Senatorial Election

In the Senate there are 34 seats up, with 16 considered *in play*

10 Republican seats in states won by Obama, and no Democratic seats up in states won by Romney:

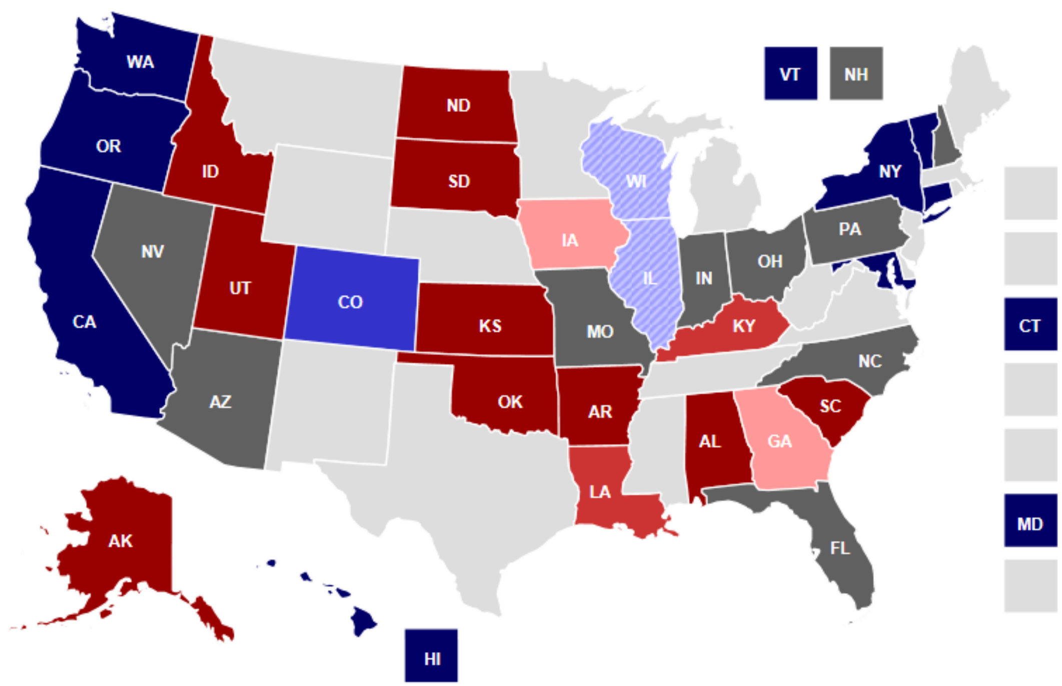
Democratic Leaning: 3

Republican Leaning: 4

Toss Up:

Republican: 8
Democratic: 1

RCP Senatorial Election Map



Source: Real Clear Politics and Wells Fargo Securities, LLC

Current Polling of House Election

In the House of Representatives polling data shows that Republicans will likely maintain control. Various polling data suggests the Democrats will pick up between 10 – 18 seats.

For the House to change hands, Democrats would need to gain 30 net seats.

Election Projection House Election Polls

Current Seats	
Republicans	247
Democrats	188

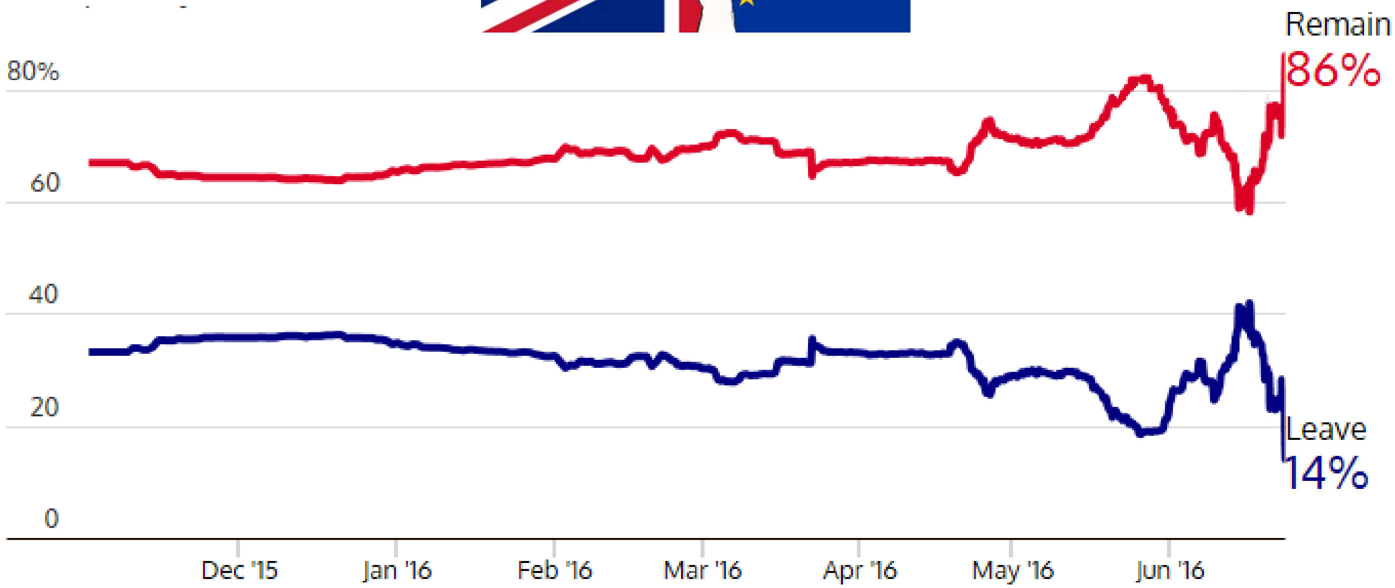
Projected Seats	
Republicans	229
Democrats	206

Projected Net Change	
Republicans	-18
Democrats	+18

Source: UVA Center for Politics, Election Projection and Wells Fargo Securities, LLC

...But Polling and Odds Brokers Don't Always Get it Right

EU referendum changes as implied by bookies' odds the day before the *Brexit* vote showed an 86 percent likelihood of UK residents voting to remain...



Source: Oddschecker.co.uk, Wells Fargo Securities, LLC

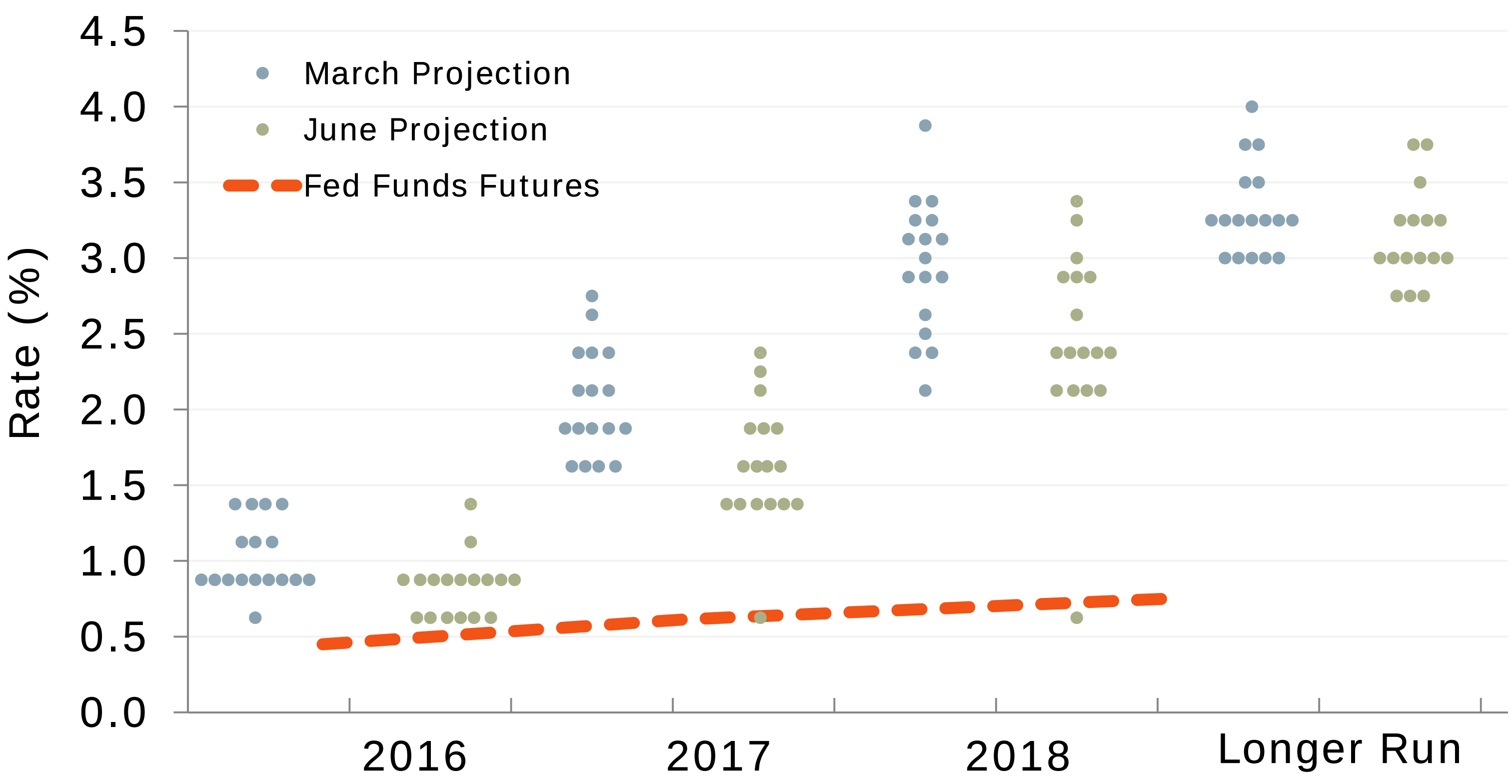
Monetary Policy, Rates Outlook

How much will Rates Rise? *According to Policymakers…*

The 2016 median *appropriate* Fed funds rate remained unchanged at 0.88 percent and the 2017 median appropriate rate is now projected at 1.63 percent from 1.88 percent.

Fed Fund futures are pricing at the lower end of 2016 and 2017 forecasts.

March – June Dot Plot Comparison



Source: Federal Reserve Board and Wells Fargo Securities, LLC

Opinions of the FOMC remain *Data Dependent*…

While rates have moved officially off of their zero lower bound, the path of interest rates will still remain data dependent and is expected to be gradual.

Factors in favor of the FOMC raising interest rates: 1. Relatively strong U.S. labor markets, 2. U.S. inflation measures are closer to 2%, 3. Waning international headwinds.

Factors favoring market-based expectation: 1. Slow U.S. real GDP growth, 2. Low U.S. inflation expectations

James Bullard, May 2016

"…monetary policy is data dependent and is not on a preset course."

Lael Brainard, June 2016

"Although the economy is now fairly close to the FOMC's goal of maximum employment, I view our modestly accommodative stance of policy as appropriate".

Janet Yellen, June 2016

"I think we have to again watch to see what actually does develop."

Daniel Tarullo, July 2016

"…we are close to our targets…[and] the behavior of employment has been remarkably resilient.."

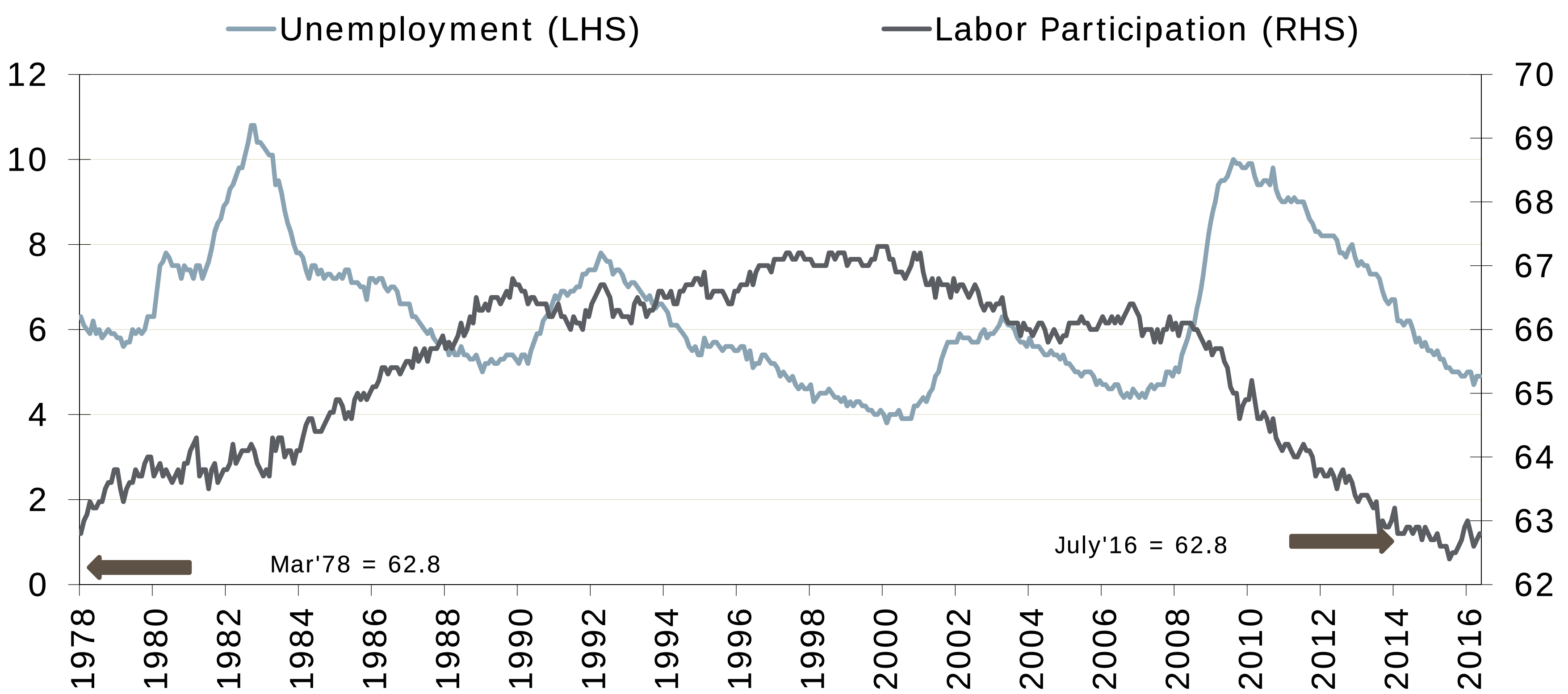
Stanley Fischer, August 2016

Source: Wall Street Journal, Wells Fargo Securities, LLC

But Concerns Remain…

Labor Force Participation Rate and Unemployment

The participation rate has followed the decline in the unemployment rate, suggesting some of the decline is not due to job creation.



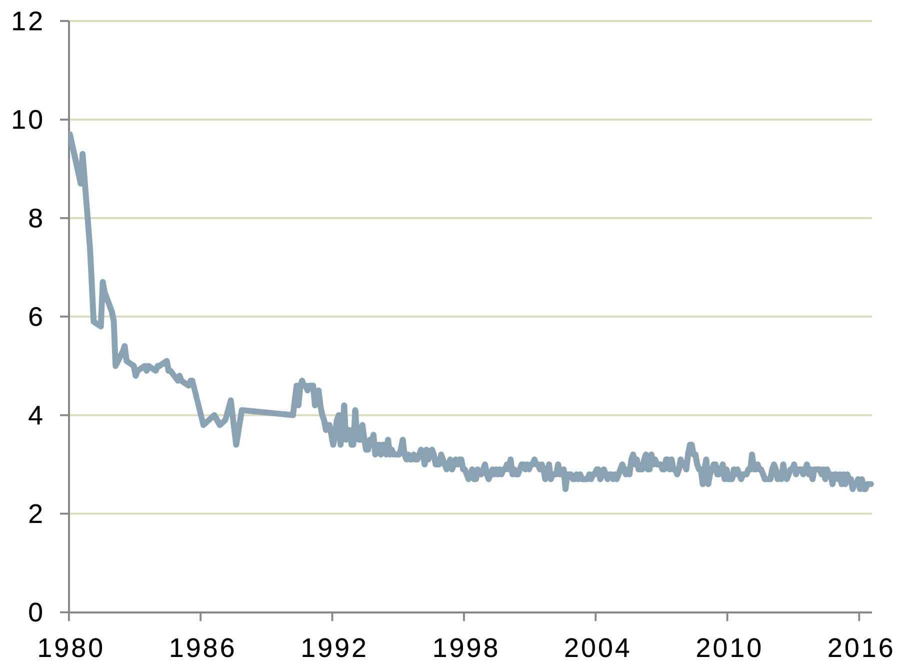
Source: BLS and, Wells Fargo Securities, LLC

The argument to keep rates low has been focused on inflation, with international weakness and low oil prices putting downward pressure on inflation expectations.

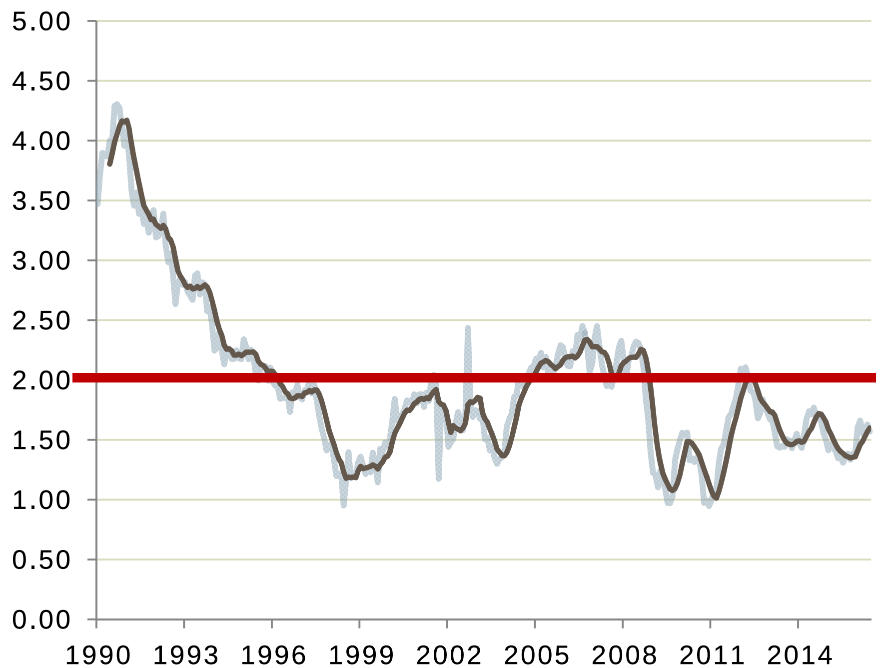
"The challenge of our times right now is becoming clear, and that is growth".

President, John Williams

5-Year Inflation Expectations in 5 Years



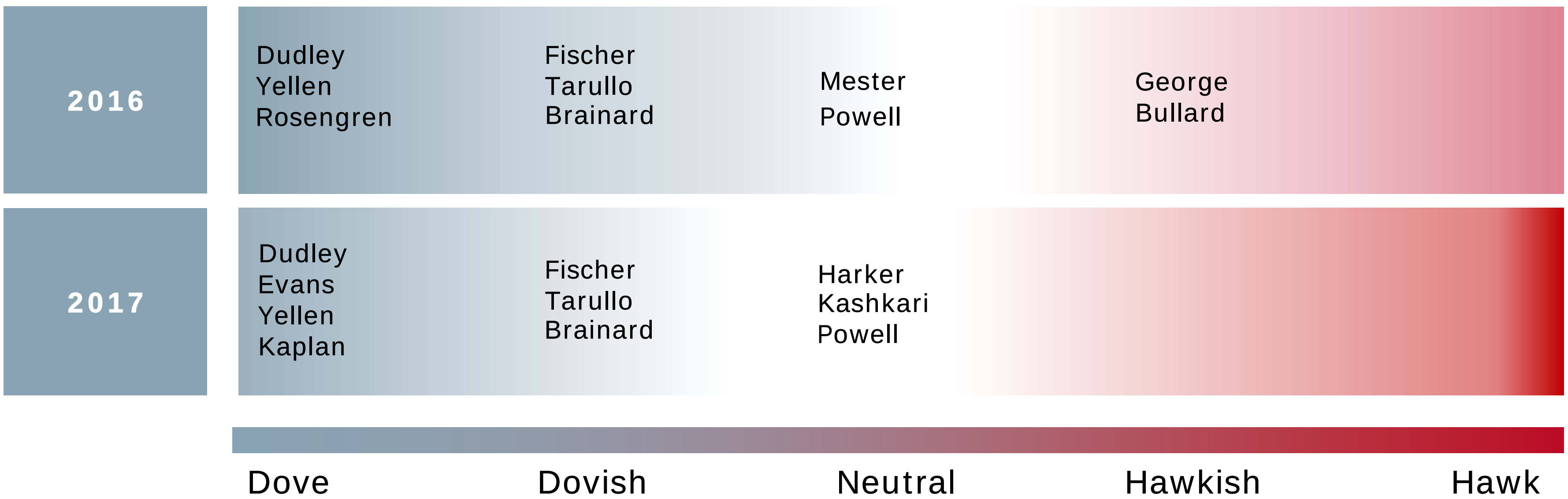
PCE Core Deflator Remains Below Forecast



Source: BLS, University of Michigan and Wells Fargo Securities, LLC

Monetary Policy also depends on the make-up of the FOMC voting members, which may explain why interest rates have remained near their zero bound for an extended period of time.

FOMC Voters 2016 – 2017

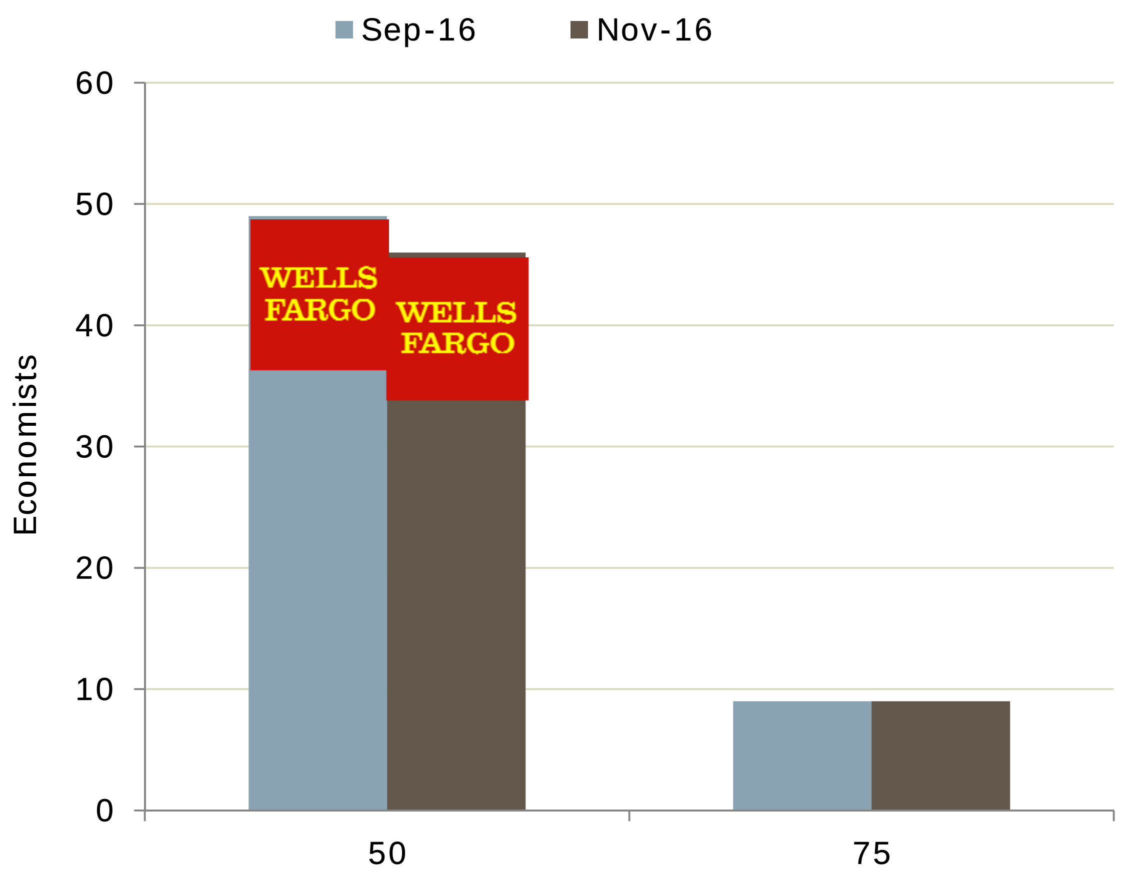


Source: Wells Fargo Securities, LLC

When will the Fed Raise Rates next? *Depends on Who You Ask…*

The consensus *economist* estimates show that some are calling for the FOMC to raise interest rates in September, but most estimates call for the FOMC to remain on hold.

Bloomberg Survey Estimates of Expected Fed IOER



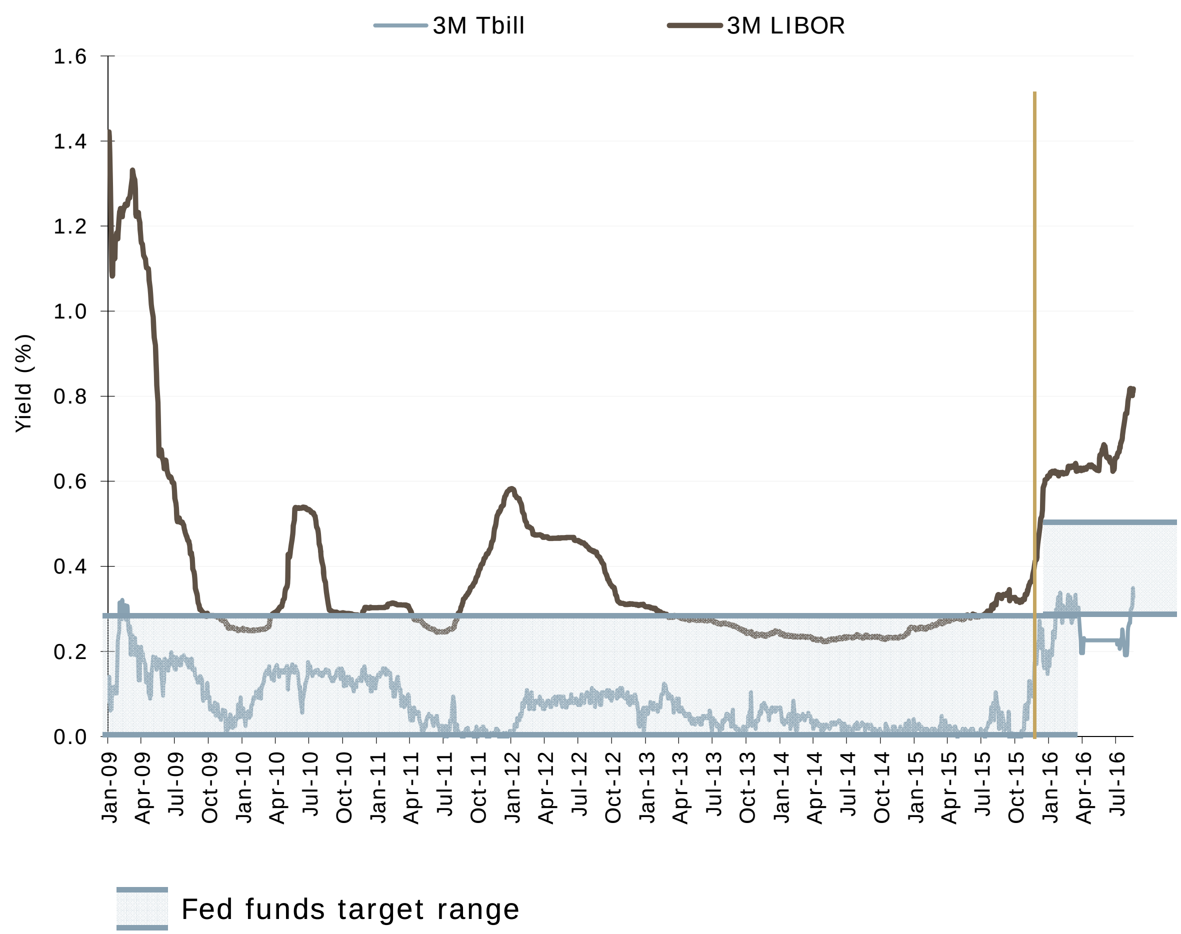
Source: Federal Reserve Bank and Wells Fargo Securities, LLC

When will the Fed raise rates again? *Markets see rates remaining low in the near-term*

Short-term cash markets have responded to the first rate hike, though t-bill rates remain at either the lower end or below the Fed's target range.

This is likely to remain the case for the foreseeable future as demand for short-term government assets is at an all-time (non-crisis) high.

Short Term Rates Remain Low

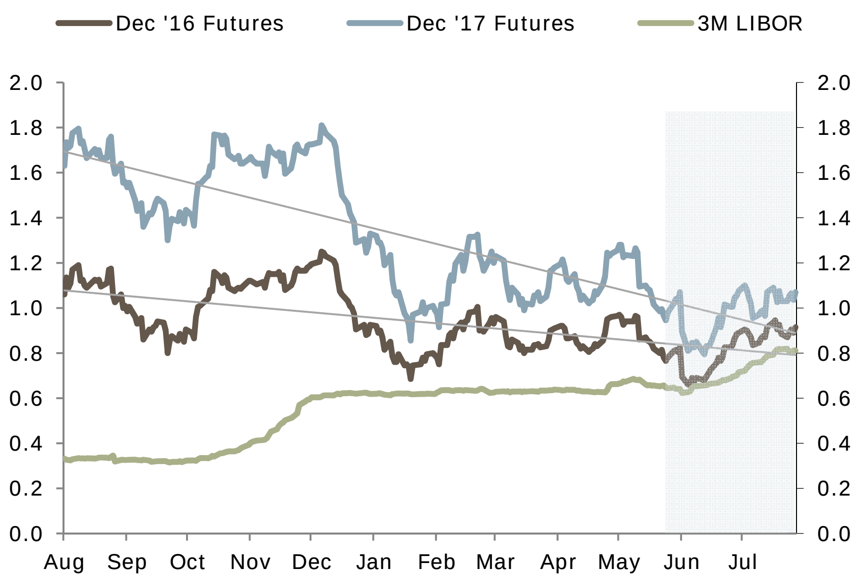


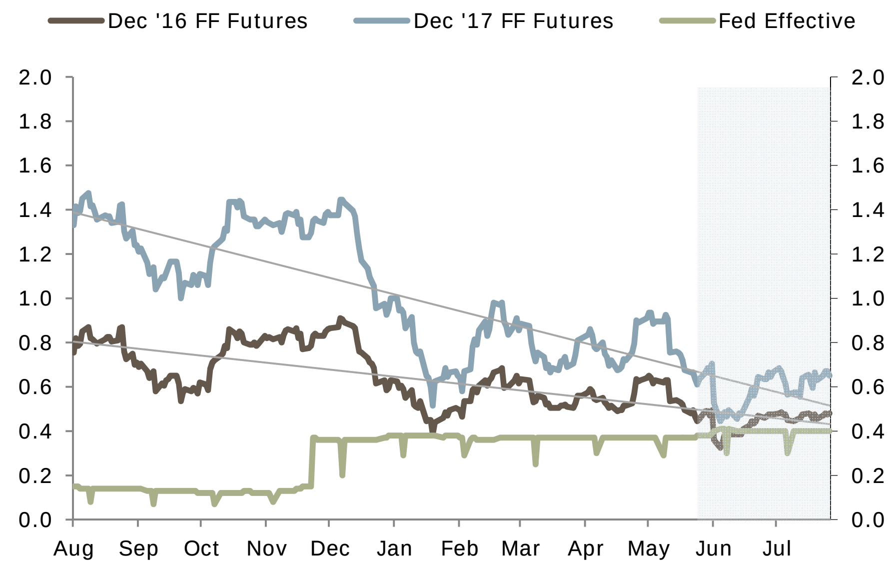
Source: ICE, Bloomberg an d Wells Fargo Securities, LLC

When will the Fed raise rates? *Markets continue to trade*

Cash and Futures-Implied Yields

Recent global economic data has caused Eurodollar and Fed funds futures contracts to oscillate, though they are currently slightly at or above trend for 2016 and 2017. This suggests that the market expects for rates to begin to rise.





Source: CBOT, ICE, Bloomberg and Wells Fargo Securities, LLC

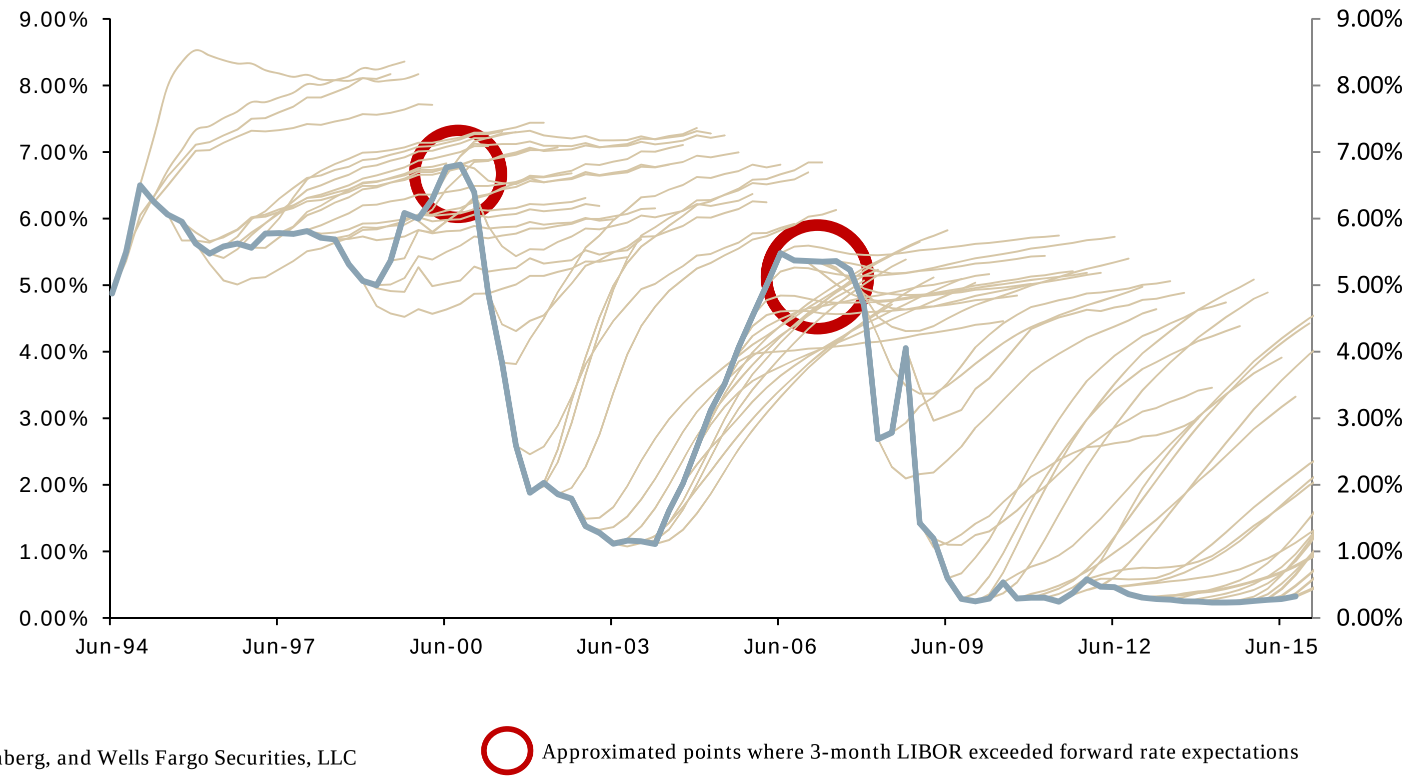
Positioning on the Curve when rates rise?

Does it make sense to move to floaters in a rising rate environment? *It depends…*

History shows that forward rates frequently overshoot actual movements in short-term rates, making a case for not being heavily underweight duration just because rates are rising.

If investors move from fixed to floating and actual floating rates stay lower than forward rates, the floating rate position underperforms the fixed-rate alternative

3-month LIBOR vs. 5-year forward rates



Source: ICE, Bloomberg, and Wells Fargo Securities, LLC

Cost of Waiting

Portfolio price volatility is a reality of fixed income investing, but there is also a cost to over-weighting cash.

Break-even Analysis, 3-year Agency at 1.014%			
Time in Cash	**Remaining Time**	**Income Forgone**	**Break-even Rate Over Remaining Term**
6 months	2.5 years	$37,700	1.165%
12 months	2 years	$75,400	1.392%
18 months	1.5 years	$113,100	1.771%

Break-even Analysis, 5-year investment at 1.304%			
Time in Cash	**Remaining Time**	**Income Forgone**	**Break-even Rate Over Remaining Term**
6 months	4.5 years	$52,200	1.420%
12 months	4 years	$104,400	1.566%
18 months	3.5 years	$156,600	1.753%
24 months	3 years	$208,800	2.003%

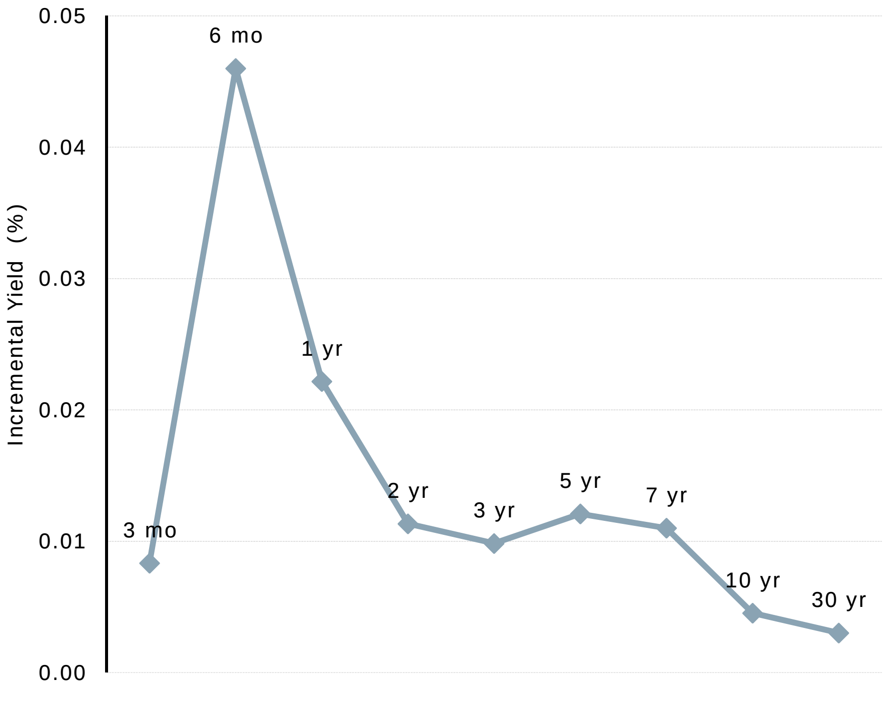
Amount invested:	$10M
Cash investment rate:	0.26%

Source: Wells Fargo Securities, LLC

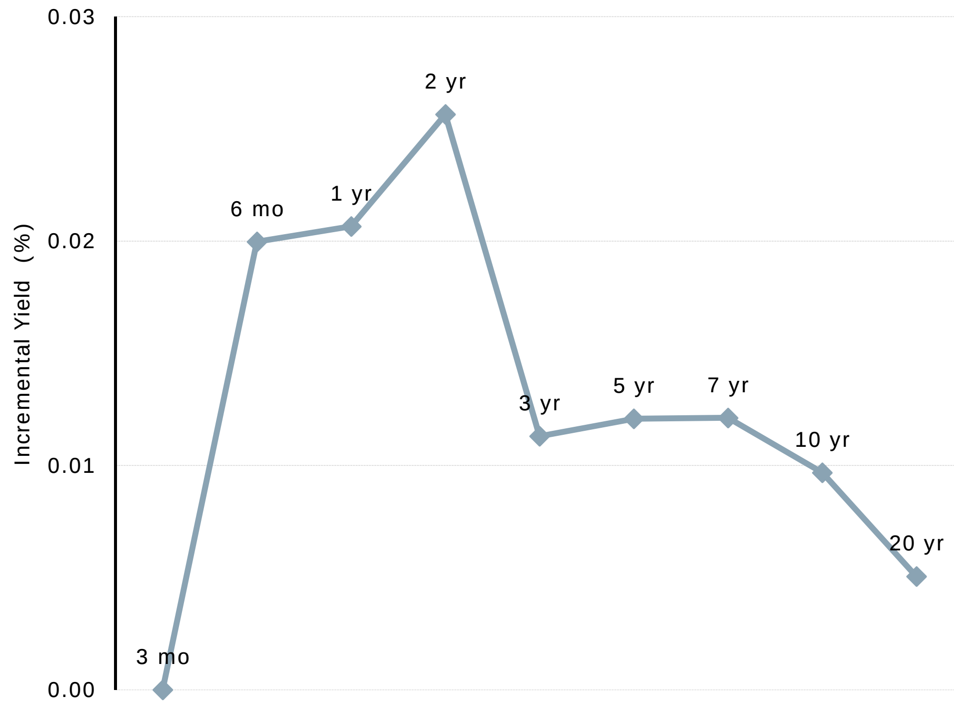
Assessing Yield Curve Steepness – Incremental Yield Per Month

From an incremental yield-per-month perspective, the 2-year maturity is currently the steepest part of the U.S. Agency curve while the 6-month maturity is the steepest part of the U.S. Treasury yield curve.

U.S. Treasury Curve Incremental Yield Per Month



U.S. Agency Curve Incremental Yield Per Month



Source: Bloomberg, Wells Fargo Securities, LLC

Rates across various short-term fixed income products are mixed month-over-month, with yields on some products rising dramatically.

Rate Comparison

Asset Class	1-Jul	18-Aug	Change
Fed RRP	25	25	0
Triparty (TSY)	32	30	-2
GCF Repo (TSY)	58	53	-6
Fed Funds	41	40	-1
4-Week Bills	23	27	5
3-Month Bills	26	29	3
30-Day Discos	25	25	0
30-Day CP (Non-Fin)	37	37	0
30-Day CP (Tier-2)	78	73	-5
1-Month LIBOR	47	51	4
3-Month LIBOR	65	81	16
1-Month OIS	38	40	2
3-Month OIS	38	42	4
Dec. '16 FF Fut.	39	48	9
Dec. '16 LIBOR Fut.	69	89	20
Crane 100 MMF YLD	23	22	-1
2-Year TSY Note	59	70	11
3-Year TSY Note	69	82	13
1-3 Year IG Index	96	83	-14
2YNC3M AGY Berm	84	100	16
2YNC1Y AGY Berm	80	95	15

Source: Bloomberg, Wells Fargo Securities, LLC

Drivers of Various Market Movements

Different Markets have different market drivers that influence their relative attractiveness, both fundamental and technical.

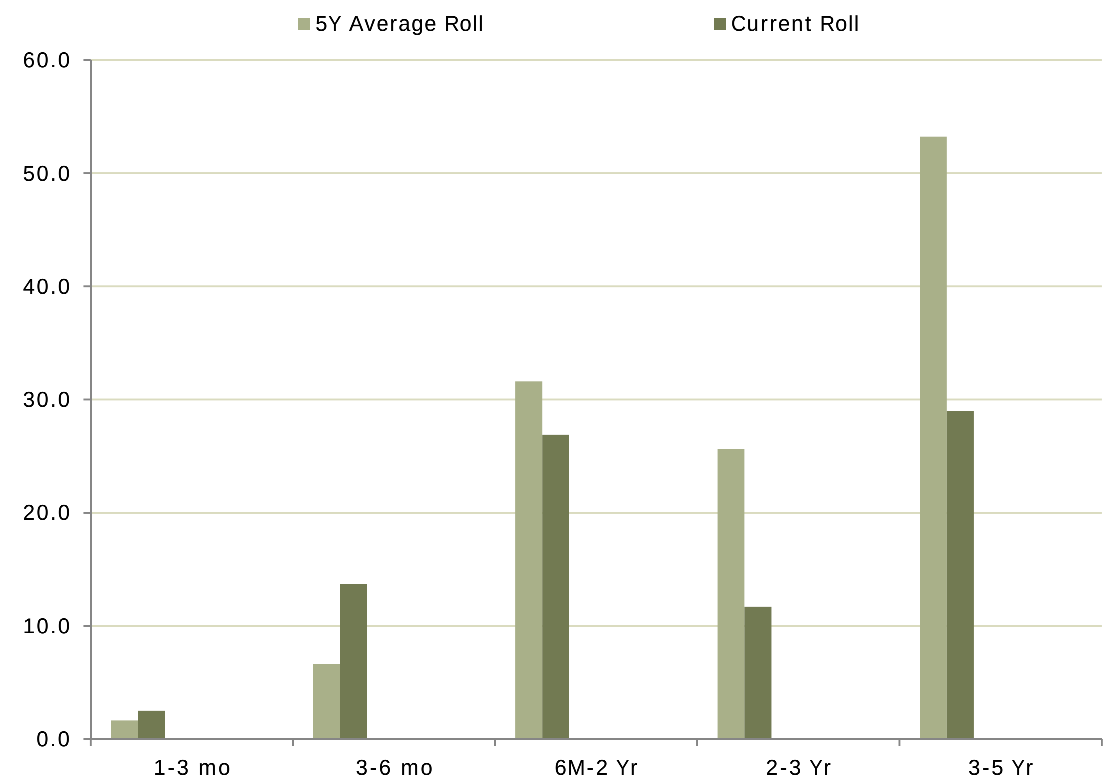
2016 Market Drivers

- ***Money Markets***
  - Money fund reform will cause spreads to widen between government and credit-related products as assets flow from one to the other.
  - Rising interest rates will likely push spreads between government and prime funds wider as funds look to return to “full fees” in government funds.
  - Supply < 30 days will likely remain very well bid as banks look to fund in longer-term markets to satisfy Liquidity Coverage Ratio requirements.
- ***Longer-Term***
  - Spread compression between agency and treasury markets to remain as agency supply continues to contract.
  - Credit markets in 2016 will be driven by continued strong new issuance as rates remain low. Spreads in most investment-grade markets are well above their 3-year average. Energy sector is expected to struggle as oversupply continues to hurt the market.

Source: Wells Fargo Securities, LLC

The Treasury curve has steepened recently between 1-month and 6-months, but flattened in the 3-5 year part of the curve.

Current Curve Steepness vs. 5-Year Average and 2004 Cycle



Source: Bloomberg, Wells Fargo Securities, LLC

There can be benefits to purchasing securities at the steepest points along the curve.

Three Reasons to Consider Yield Curve Steepness

- ***Rising Rates:*** Purchasing at steep points along the yield curve may allow the investor to potentially maintain a buffer against rising interest rates.
  - Because the yield curve rarely moves in a uniform manner, parts of the curve that have already risen may have a tendency to rise relatively less than other parts of the curve as they "catch up."
  - Even if interest rates rise in a relatively uniform manner, higher yields at steep points along the curve generate incrementally more carry, potentially reducing losses on a total return basis, than if the curve were relatively more flat.
- ***Flat/Falling Rates:*** Purchasing at steep points along the curve allows clients to take advantage of potential price appreciation.

Source: Wells Fargo Securities, LLC

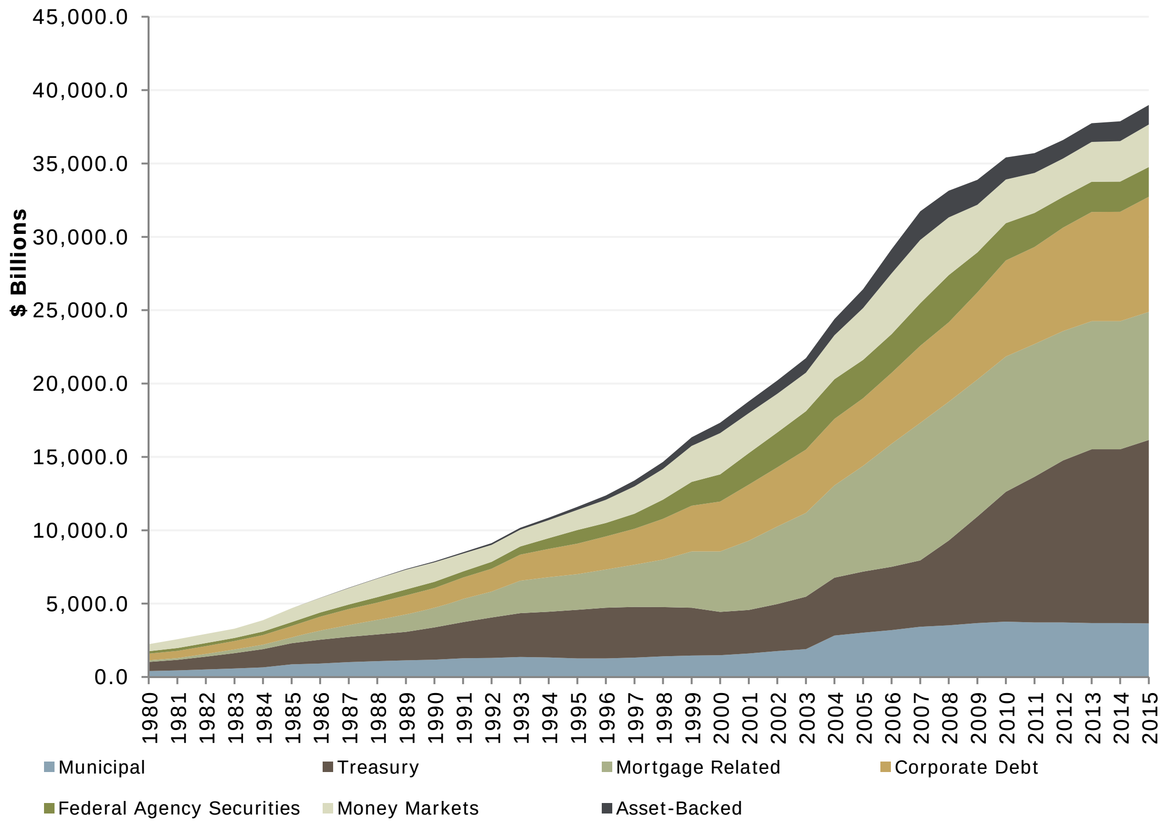
The Supply Situation

Corporate Debt Issuance Trends

U.S. debt outstanding has dramatically increased over the past 20 years, but total debt outstanding has grown at a slower pace in the last 2 years.

Treasury debt accounts for the largest sector in terms of debt outstanding, followed by corporate debt.

U.S. Bond Market Debt Outstanding by Sector



Source: SIFMA, Wells Fargo Securities, LLC

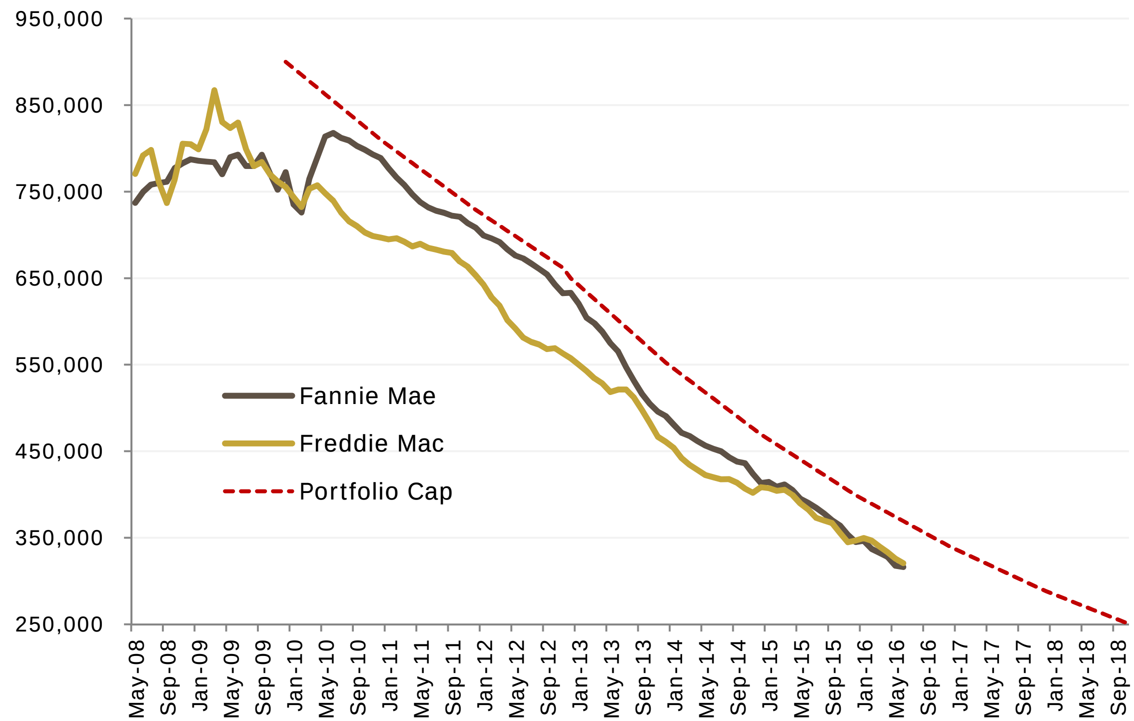
Fannie Mae and Freddie Mac Issuance will Continue to Decline

Fannie Mae and Freddie Mac issuance has continued to decline and the size of their retained portfolios are lower than required.

This will result in:

1. Less overall supply from housing GSEs.
2. Tighter spreads versus Treasuries

Retained Portfolios vs. Cap

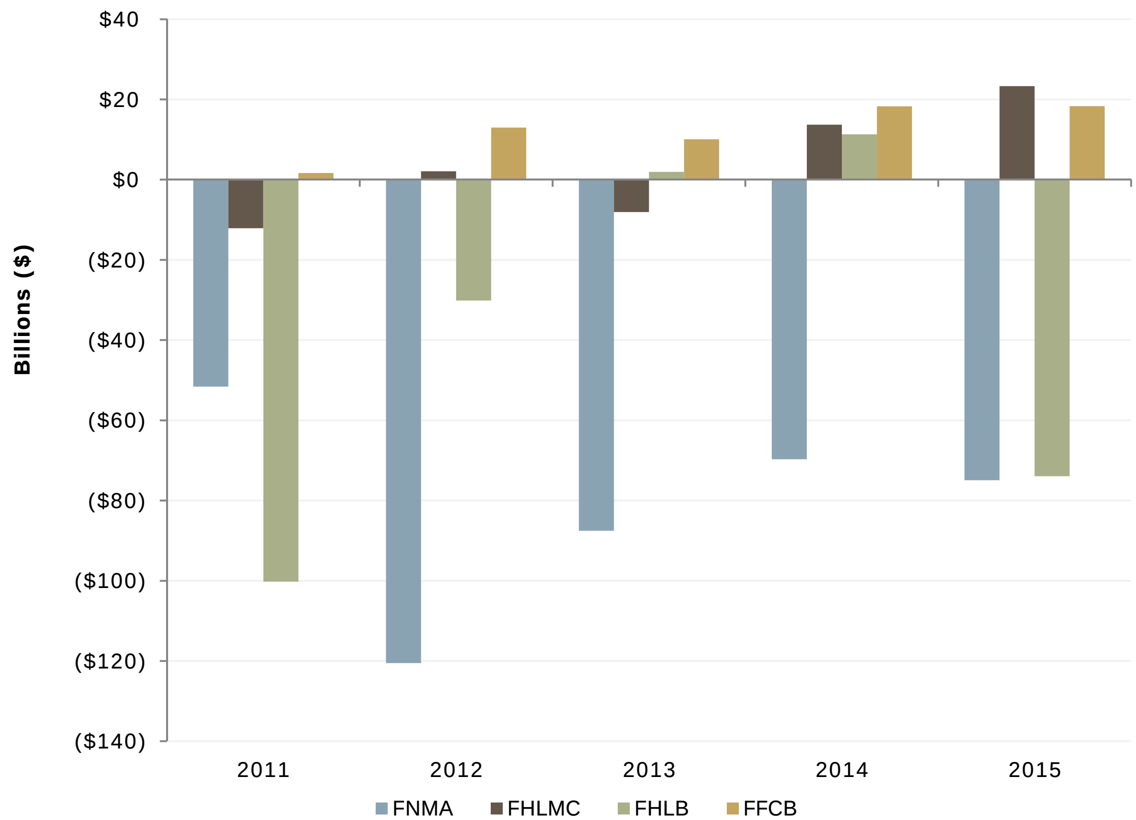


Source: Fannie Mae, Freddie Mac, FHFA, Wells Fargo Securities, LLC

Agency Issuance Has Continued to Decline

Overall, net Agency issuance continues to decline, with just a couple of the larger Agency issuers with incremental positive net issuance.

Agency Net Issuance

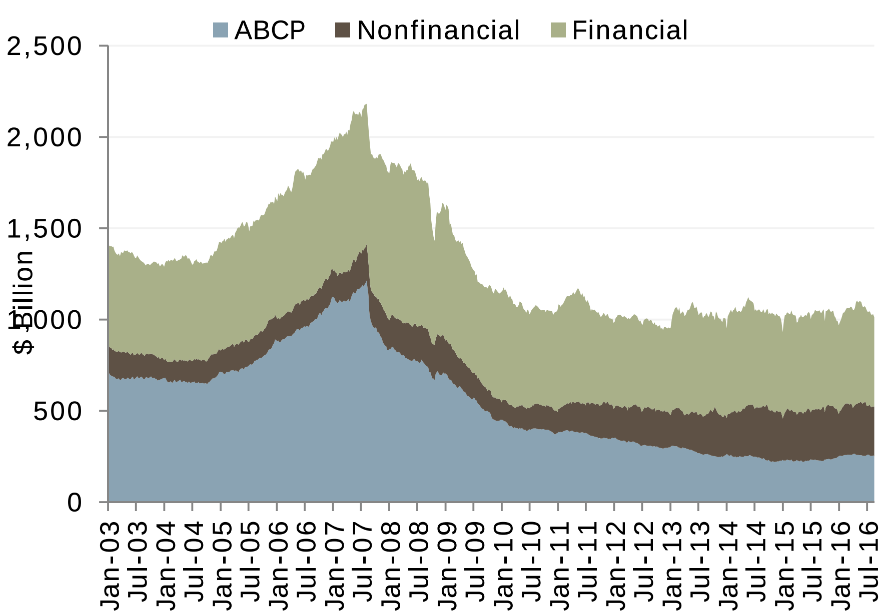


Source: FNMA, FHLMC, FHLB, FFCB

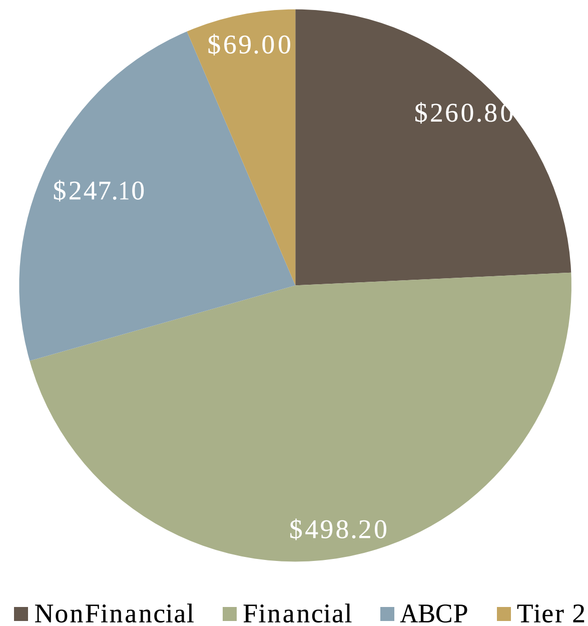
Commercial Paper Outstanding has fallen significantly from the peak, but looks to have stabilized around the $1 trillion level.

Tier 2 Commercial Paper remains a small portion of the overall CP market.

Total Commercial Paper Outstanding



Commercial Paper by Sector



Source: Bloomberg , Wells Fargo Securities, LLC

FSB and Federal Reserve Regulations are also impacting supply...

Total Loss-Absorbing Capital rule will likely force assets outside of 1-year to maturity bucket.

Total Loss-Absorbing Capital

- Must be 18 percent of risk-weighted assets for 8 U.S. G-SIBs
- 50 percent of TLAC must be **debt maturing in greater than 1 year.**
  - **Lose 50 percent of credit at 2 years.**
- Recent JPM issuance of 5-year NC 4-year note is a TLAC-Efficient form of issuance that could reduce total supply < 1-year
- Implications:
- Short-term markets could see reduction in certain MM paper.

U.S. G-SIB Total Loss-Absorbing Capital Needs

Base Case	BAC	C	JPM	WFC	GS	MS	BK	STT	Total
2019	21,161	36,877	36,379	26,125	(42,757)	(15,886)	(2,119)	3,266	**123,808**
2022	26,383	40,723	35,667	46,856	(46,234)	(18,979)	(1,472)	3,266	**152,895**

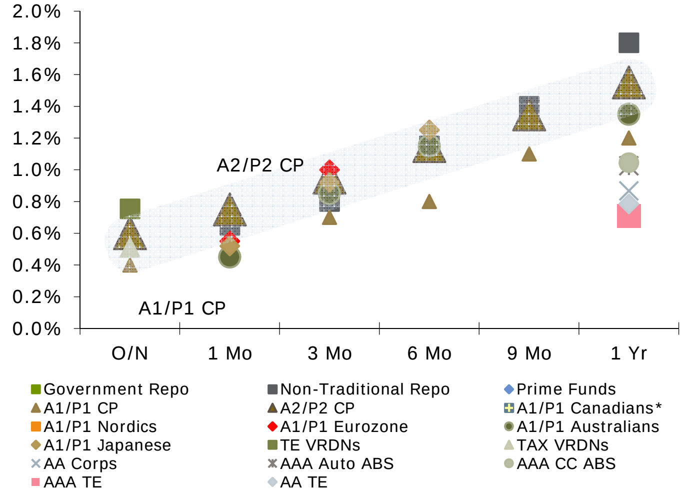
Source: Wells Fargo Securities, LLC

Cross Sector Relative Value 0 – 1 Year

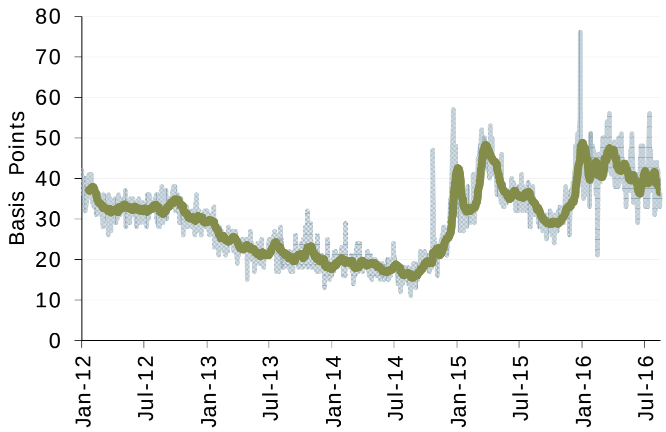
Tier 2 CP, along with non-traditional repo are the highest yielding asset classes inside of one year.

Spreads between T-Bills and Discount Notes remain wide as bills have been well bid since the Fed meeting.

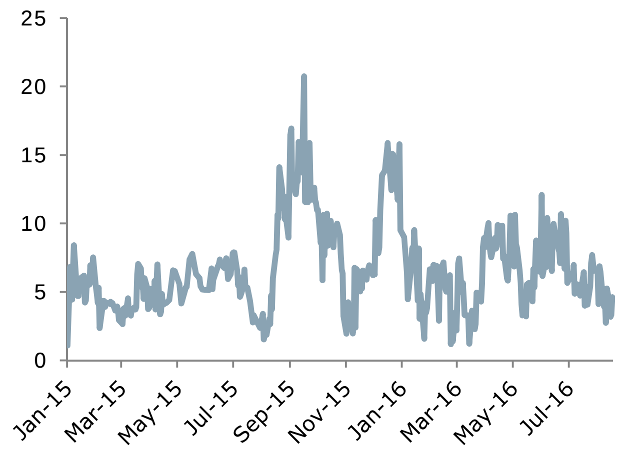
Cross Sector Relative Value < 1 Year



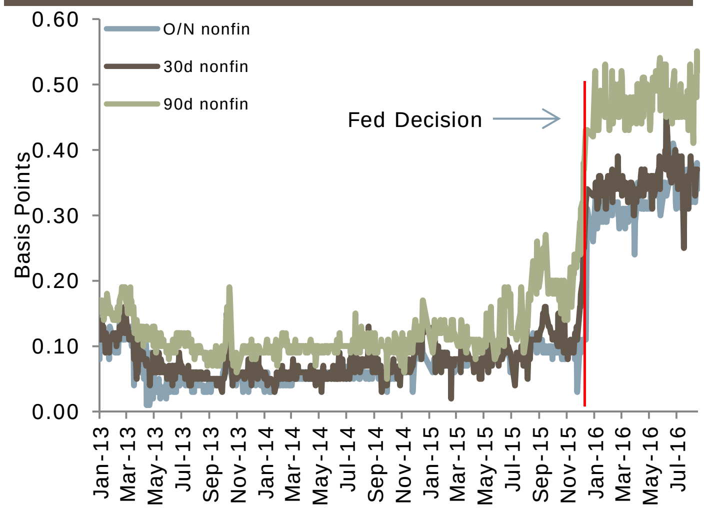
Tier 1 vs. Tier 2 CP Basis



90-Day Discos vs. T-Bills



Tier 1 Non-Fin. CP Term Structure



Source: Wells Fargo Securities, LLC, Bloomberg , iMoneyNet, DTCC

Moody's CP ratings transition data over the past 37 years have shown that over the span of most new CP issuance, ratings stability is high for both P1 and P2-rated commercial paper, and that jump-to-default risk is extremely low.

Commercial Paper Ratings Transitions 1972 - 2009

HORIZON (DAYS)	BEGIN RATING	TERMINAL RATING					
		P-1	P-2	P-3	NP	WR	DEFAULT*
30	P-1	**99.198%**	0.368%	0.005%	0.006%	0.421%	0.003%
	P-2	0.405%	**98.356%**	0.456%	0.097%	0.683%	0.004%
	P-3	0.055%	1.218%	94.900%	1.865%	1.934%	0.028%
	NP	0.000%	0.063%	0.501%	97.255%	2.016%	0.165%
60	P-1	**98.385%**	0.741%	0.011%	0.011%	0.846%	0.006%
	P-2	0.818%	**96.704%**	0.874%	0.214%	1.380%	0.011%
	P-3	0.111%	2.447%	90.184%	3.415%	3.795%	0.048%
	NP	0.000%	0.140%	0.999%	94.648%	3.907%	0.305%
90	P-1	**97.575%**	1.107%	0.019%	0.019%	1.272%	0.009%
	P-2	1.227%	**95.078%**	1.255%	0.341%	2.084%	0.016%
	P-3	0.167%	3.673%	85.768%	4.693%	5.630%	0.069%
	NP	0.000%	0.211%	1.495%	92.180%	5.680%	0.434%

Source: Moody's Investors Service

During the financial crisis, there were no issuers that were rated P2 30 days prior to default.

Moody's-Rated Commercial Paper Defaults, 1982-2009*

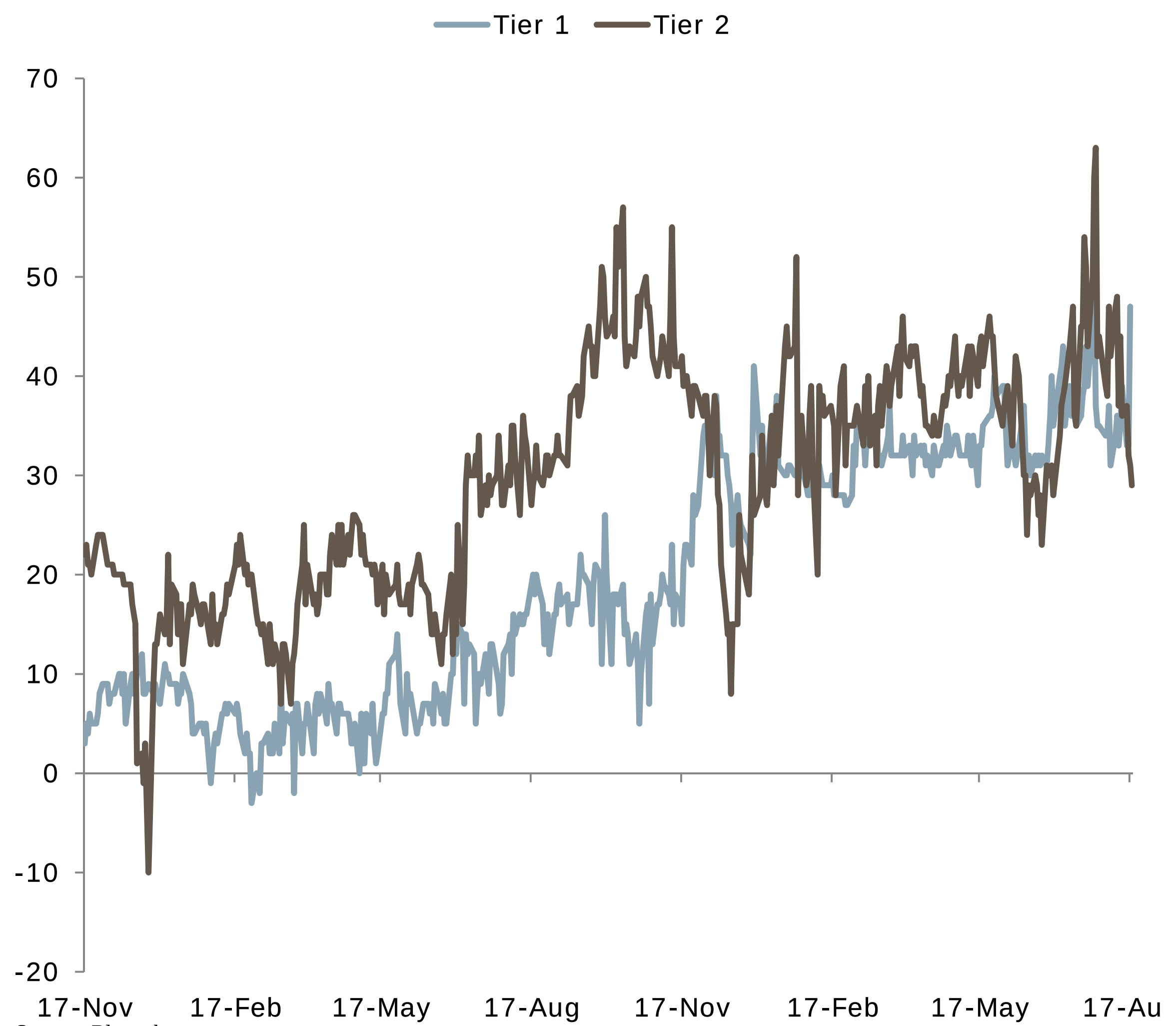
ISSUER NAME	DEFAULT YEAR	DEFAULT VOL**	RATINGS X DAYS PRIOR TO DEFAULT 0	30	60	90	120	180	270	365	INITIAL RATING OF DEFAULTING NOTES
Lehman Brothers Holdings, Inc	2008	$3,000.0	P-1	P-1	P-1	P-1	P-1	P-1	P-1	P-1	P-1
Glitnir banki hf	2008	$435.8	P-2	P-1	P-1	P-1	P-1	P-1	P-1	P-1	P-1
Landsbanki Islands hf	2008	$208.0	P-1	P-1	P-1	P-1	P-1	P-1	P-1	P-1	P-1
Kaupthing Bank hf	2008	$21.9	P-1	P-1	P-1	P-1	P-1	P-1	P-1	P-1	P-1
Metrofinanciera, S.A. DE C.V.	2009	$360.5	NP	NP	NP	NP	NP	NP	NP	NP	NP
Hipotecaria Credito Y Casa	2009	$23.9	NP	NP	NP	NP	NP	NP	NP	NP	NP

Source: Moody's Investors Service

Short-Term Rates – ...and CP term structure is steepening

The term structure of commercial paper has steepened in recent months, partially as a result of interest-rate expectations and partially as a result of shortening money market fund WAMs.

Commercial Paper Term Structure (6-month vs. 30-Day)



Source: Bloomberg

Cross Sector Relative Value 1 – 5 Years

Investment Landscape: *Annual Returns for Short Duration Sectors*

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
6	U.S. Corporates 1-3 Years 5.33%	Mortgages 0-3 Years WAL 2.80%	Asset Backed Securities 0-3 Years 2.60%	Asset Backed Securities 0-3 Years 4.73%	U.S. Treasuries, 1-3 Years 7.32%	U.S. Agencies 1-3 Years 7.05%	U.S. Corporates 1-3 Years 14.69%	Mortgages 0-3 Years WAL 5.42%	Mortgages 0-3 Years WAL 3.15%	U.S. Corporates 1-3 Years 4.49%	U.S. Corporates 1-3 Years 1.78%	U.S. Corporates 1-3 Years 1.19%
5	Asset Backed Securities 0-3 Years 2.74%	Asset Backed Securities 0-3 Years 2.16%	Mortgages 0-3 Years WAL 2.15%	U.S. Corporates 1-3 Years 4.71%	Mortgages 0-3 Years WAL 6.95%	U.S. Treasuries, 1-3 Years 6.61%	Asset Backed Securities, 0-3 Years 13.80%	U.S. Corporates 1-3 Years 4.86%	Municipals 1-3 Years 2.37%	Asset Backed Securities, 0-3 Years 1.88%	Municipals 1-3 Years 1.07%	Mortgages 0-3 Years WAL 1.10%
4	U.S. Agencies, 1-3 Years 2.18%	U.S. Corporates 1-3 Years 1.82%	U.S. Corporates 1-3 Years 1.89%	Mortgages 0-3 Years WAL 4.64%	U.S. Agencies 1-3 Years 6.74%	Mortgages 0-3 Years WAL 5.27%	Mortgages 0-3 Years WAL 5.98%	Asset Backed Securities, 0-3 Years 3.35%	U.S. Corporates, 1-3 Years 1.76%	Mortgages 0-3 Years WAL 1.61%	Mortgages 0-3 Years WAL 0.91%	Asset Backed Securities, 0-3 Years 0.89%
3	Municipals 1-3 Years 2.08%	Municipals 1-3 Years 1.28%	U.S. Agencies 1-3 Years 1.77%	U.S. Agencies 1-3 Years 4.52%	U.S. Corporates 1-3 Years 5.67%	Municipals 1-3 Years 5.16%	Municipals 1-3 Years 4.21%	U.S. Treasuries, 1-3 Years 2.35%	U.S. Treasuries, 1-3 Years 1.55%	Municipals 1-3 Years 1.03%	Asset Backed Securities 0-3 Years 0.78%	Municipals 1-3 Years 0.72%
2	U.S. Treasuries, 1-3 Years 1.90%	U.S. Agencies 1-3 Years 1.18%	U.S. Treasuries 1-3 Years 1.67%	U.S. Treasuries 1-3 Years 3.96%	Asset Backed Securities 0-3 Years 4.84%	Asset Backed Securities 0-3 Years -1.22%	U.S. Agencies 1-3 Years 2.17%	U.S. Agencies 1-3 Years 2.32%	U.S. Agencies 1-3 Years 1.53%	U.S. Agencies 1-3 Years 0.85%	U.S. Agencies 1-3 Years 0.424%	U.S. Agencies 1-3 Years 0.70%
1	Mortgages 0-3 Years WAL 1.83%	U.S. Treasuries, 1-3 Years 0.91%	Municipals 1-3 Years 1.41%	Municipals 1-3 Years 3.25%	Municipals 1-3 Years 4.70%	U.S. Corporates 1-3 Years -2.68%	U.S. Treasuries, 1-3 Years 0.79%	Municipals 1-3 Years 1.29%	Asset Backed Securities, 0-3 Years 1.49%	U.S. Treasuries 1-3 Years 0.43%	U.S. Treasuries 1-3 Years 0.36%	U.S. Treasuries 1-3 Years 0.62%
0												

Source: Bloomberg, Federal Reserve, Wells Fargo Securities, LLC

Returns shown are the annual total returns of select Bank of America Merrill Lynch indices. This Table of Short Duration Returns is a comprehensive representation of relative sector performance for a 10-year period through 12/31/2014. This material is offered compliments of Wells Capital Management to its clients. It is for your own personal information and we are not soliciting an action based upon it. Past performance is not indicative of future results.

Investment Landscape: *Annual Returns for Short Duration Sectors*

1994	1995	1996
Mortgages 0-3 Years WAL 2.184%	Mortgages 0-3 Years WAL 12.486%	Mortgages 0-3 Years WAL 6.156%
Asset Backed Securities 0-3 Years 1.625%	U.S. Corporates 0-3 Years 11.717%	Asset Backed Securities 0-3 Years 5.882%
Municipals 0-3 Years 1.311%	U.S. Treasuries 0-3 Years 10.999%	U.S. Corporates 0-3 Years 5.712%
U.S. Corporates 0-3 Years 1.182%	U.S. Agencies 0-3 Years 10.935%	U.S. Agencies 0-3 Years 5.377%
U.S. Treasuries 0-3 Years 0.569%	Asset Backed Securities 0-3 Years 9.945%	U.S. Treasuries 0-3 Years 4.979%
U.S. Agencies 0-3 Years 0.267%	Municipals 0-3 Years 7.220%	Municipals 0-3 Years 4.108%

1999	2000	2001
Asset Backed Securities 0-3 Years 4.830%	Mortgages 0-3 Years WAL 8.992%	U.S. Corporates 0-3 Years 9.585%
Mortgages 0-3 Years WAL 4.677%	U.S. Agencies 0-3 Years 8.544%	U.S. Agencies 0-3 Years 8.635%
U.S. Corporates 0-3 Years 3.904%	Asset Backed Securities 0-3 Years 8.004%	U.S. Treasuries 0-3 Years 8.300%
U.S. Agencies 0-3 Years 3.508%	U.S. Treasuries 0-3 Years 7.995%	Asset Backed Securities 0-3 Years 8.155%
U.S. Treasuries 0-3 Years 3.063%	U.S. Corporates 0-3 Years 7.608%	Mortgages 0-3 Years WAL 7.792%
Municipals 0-3 Years 2.507%	Municipals 0-3 Years 5.678%	Municipals 0-3 Years 6.041%

2004	2005	2006
Mortgages 0-3 Years WAL 2.802%	Asset Backed Securities 0-3 Years 2.602%	Asset Backed Securities 0-3 Years 4.725%
Asset Backed Securities 0-3 Years 2.161%	Mortgages 0-3 Years WAL 2.151%	U.S. Corporates 0-3 Years 4.714%
U.S. Corporates 0-3 Years 1.820%	U.S. Corporates 0-3 Years 1.888%	Mortgages 0-3 Years WAL 4.638%
U.S. Agencies 0-3 Years 1.183%	U.S. Agencies 0-3 Years 1.767%	U.S. Agencies 0-3 Years 4.515%
Municipals 0-3 Years 1.275%	U.S. Treasuries 0-3 Years 1.668%	U.S. Treasuries 0-3 Years 3.963%
U.S. Treasuries 0-3 Years 0.907%	Municipals 0-3 Years 1.406%	Municipals 0-3 Years 3.253%

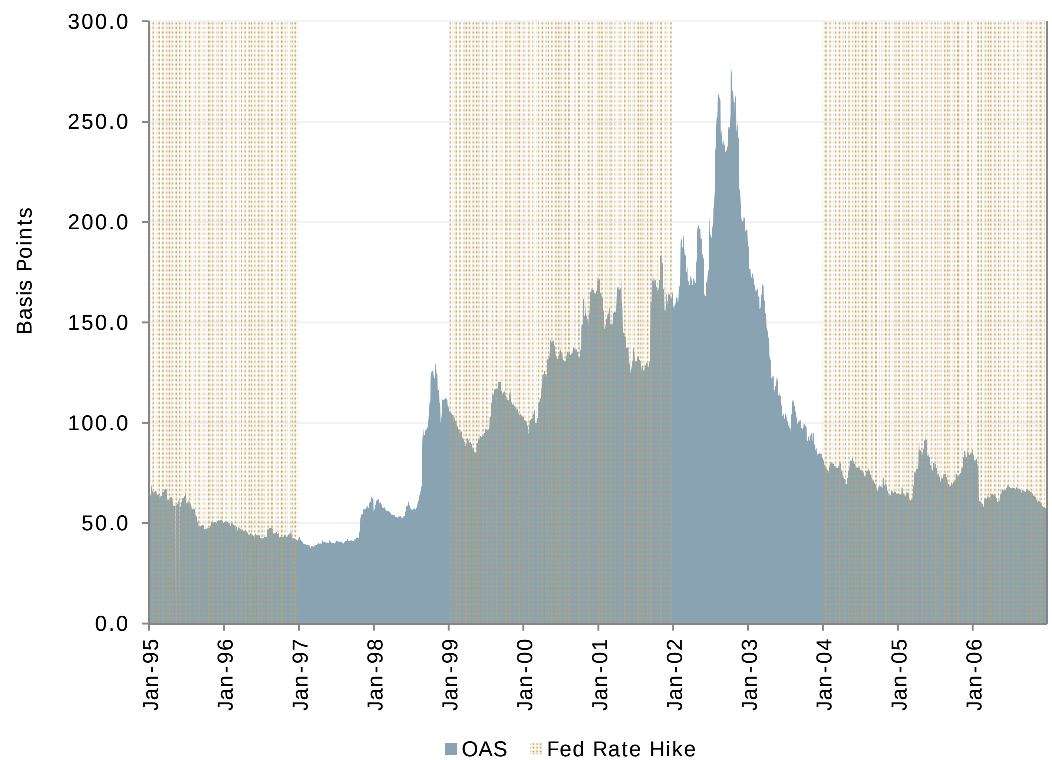
Source: Bloomberg, Federal Reserve, Wells Fargo Securities, LLC

Returns shown are the annual total returns of select Bank of America Merrill Lynch indices. This Table of Short Duration Returns is a comprehensive representation of relative sector performance for a 12-year period through 12/31/2006.

Investment Landscape: *U.S. Corporate Bonds (1-3 Years)*

Corporate spreads have demonstrated stability during the three previous rate-tightening cycles.

U.S. Corporate Bonds (1-3 Years)

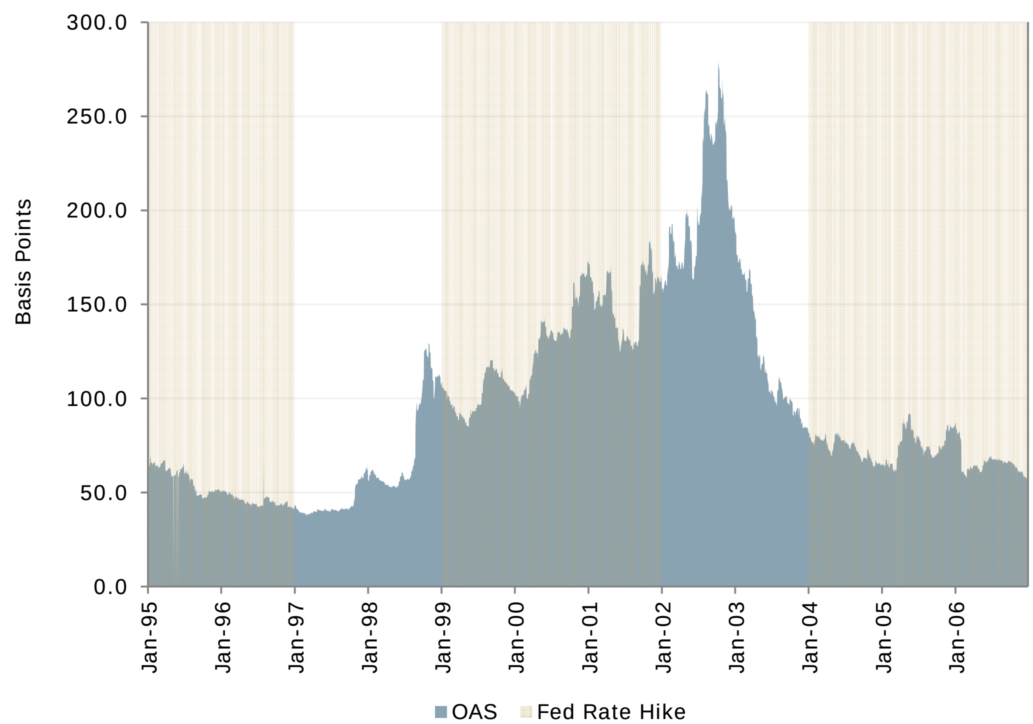


Source: Wells Fargo Securities, Bloomberg, Yield Book

Investment Landscape: *U.S. Corporate Bonds (1-5 Years)*

Corporate spreads have demonstrated stability during rate tightening cycles

U.S. Corporate Bonds (1-5 Years)

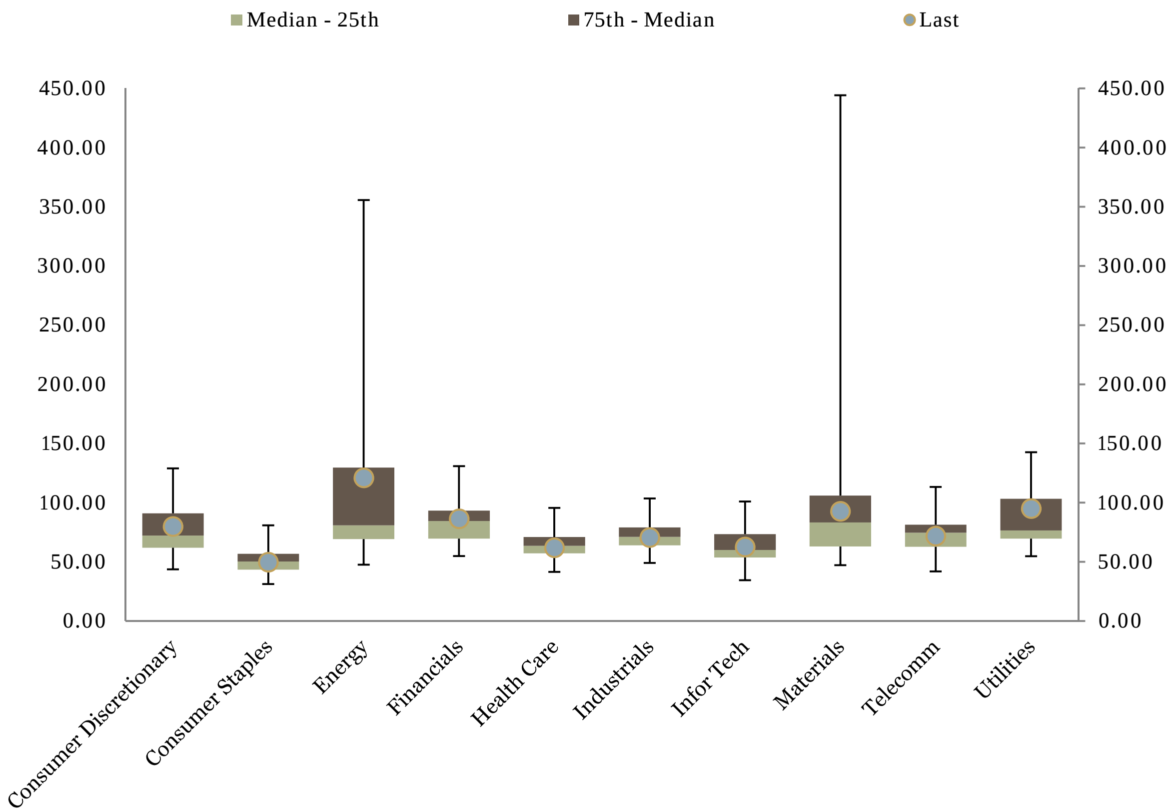


Source: Wells Fargo Securities, Bloomberg, Yield Book

Investment Landscape: *U.S. Corporate Bonds (1-3 Years)*

1-3 Year corporate notes are trading in line with their 3-Year median spread levels.

2013 – 2016 1-3 Year HG OAS by Sector



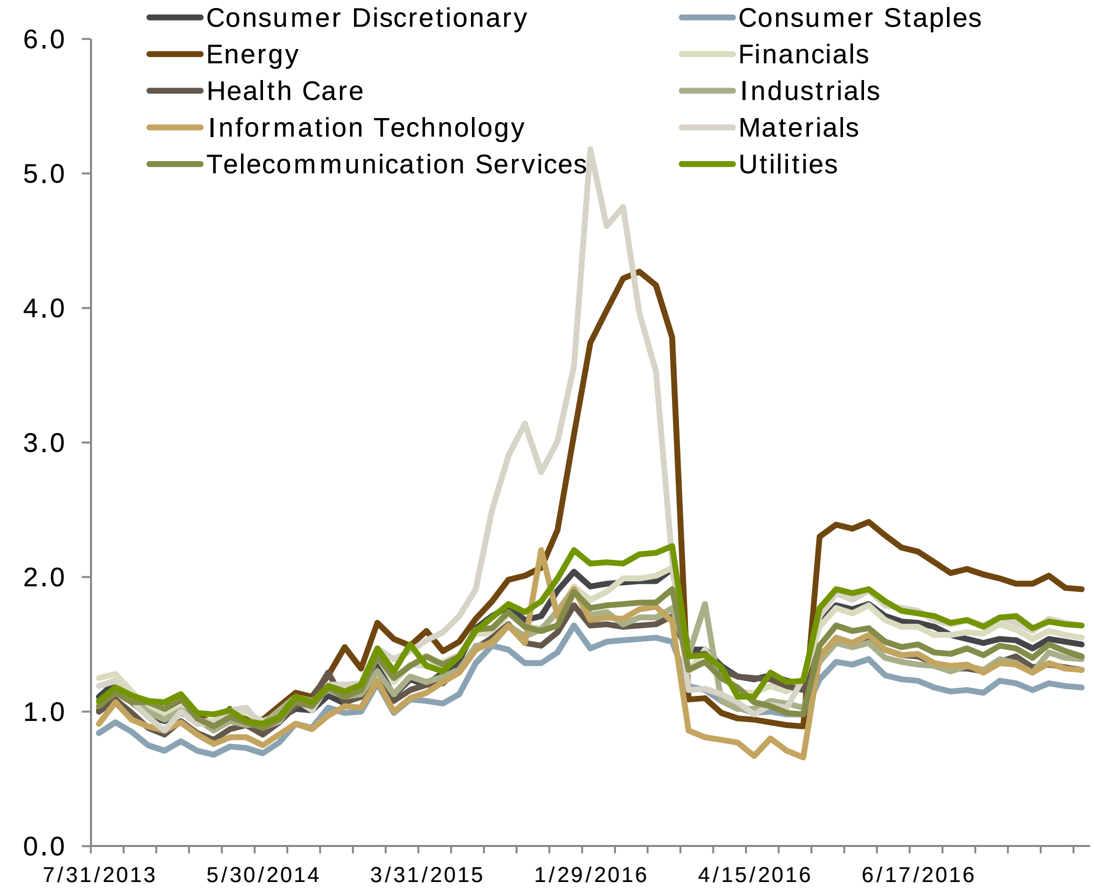
Source: Wells Fargo Securities, Bloomberg

Investment Landscape: *U.S. Corporate Bonds (1-3 Years)*

1-3 Year corporate note yields are very much a sector story, with materials and energy issuers seeing sharp movements higher in yields earlier this year and then falling dramatically.

Other issuers have been more in line with rate movements.

2013 – 2016 1-3 Year Yield Dispersion

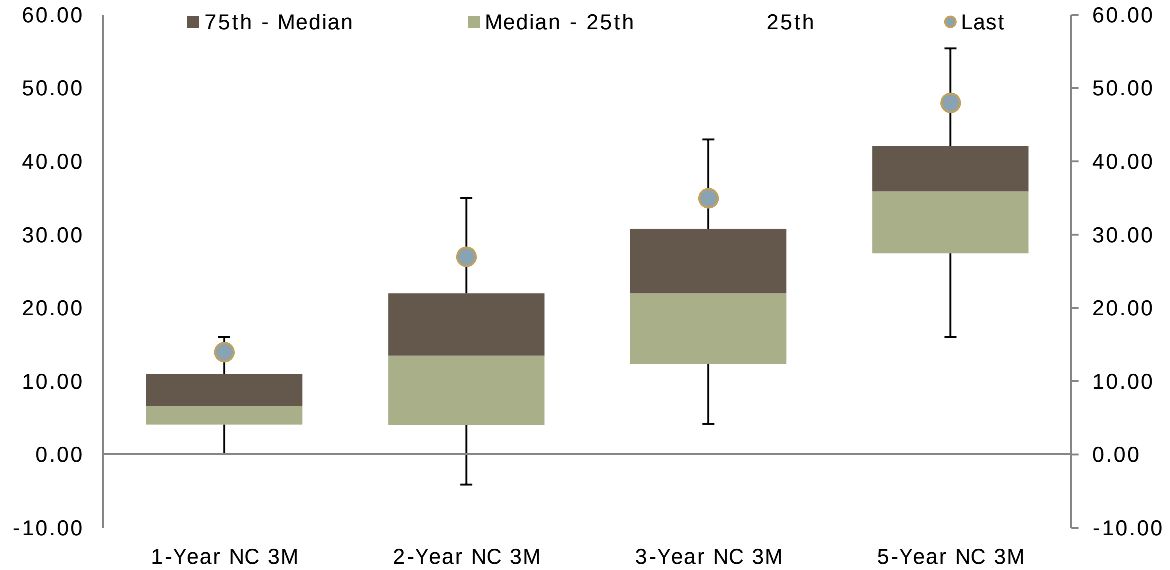


Source: Wells Fargo Securities, Bloomberg

Investment Landscape: *Agency Bonds (1-5 Years)*

1-5 Year Agency Bonds are trading above their 3-Year median spread levels.

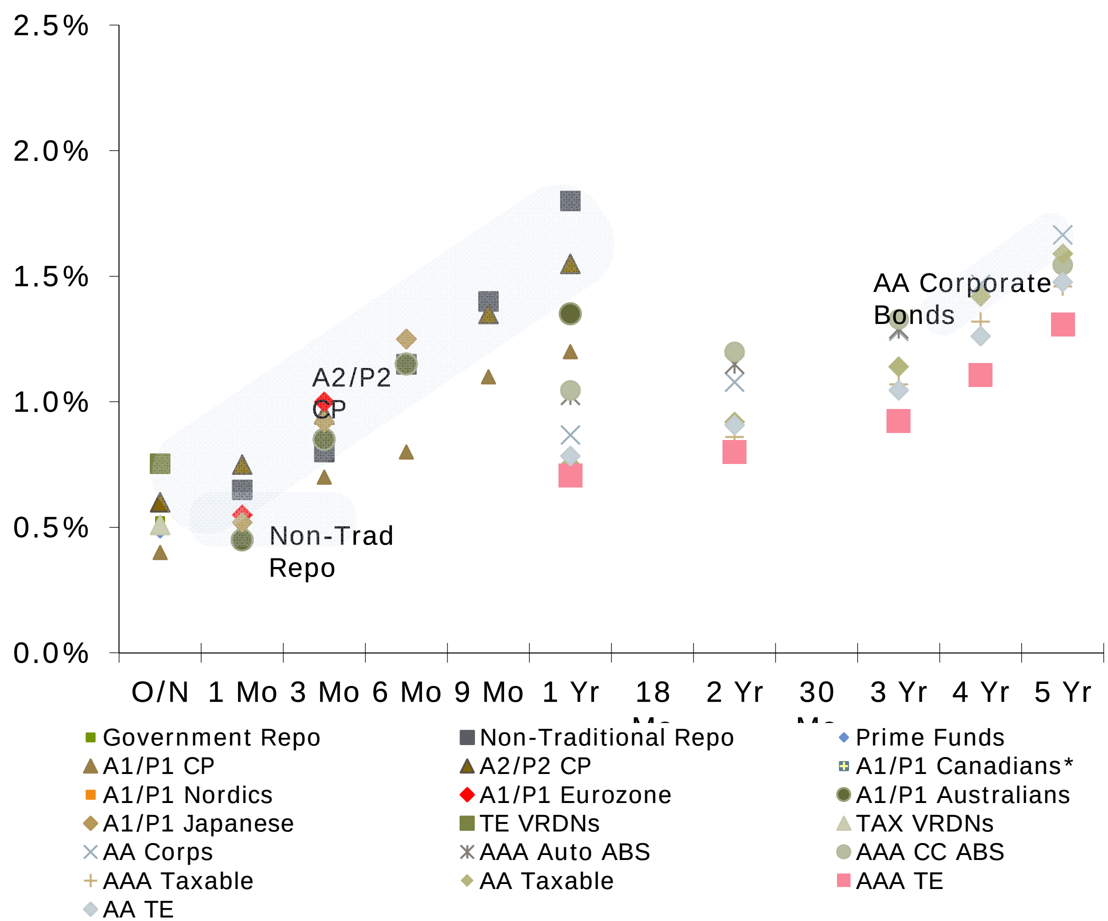
2013 – 2016 1-5 Year Spread by Tenor



Source: Wells Fargo Securities, Bloomberg

There are numerous investment options in the credit space, 1-5 years with the curve steepening between 2-5 years.

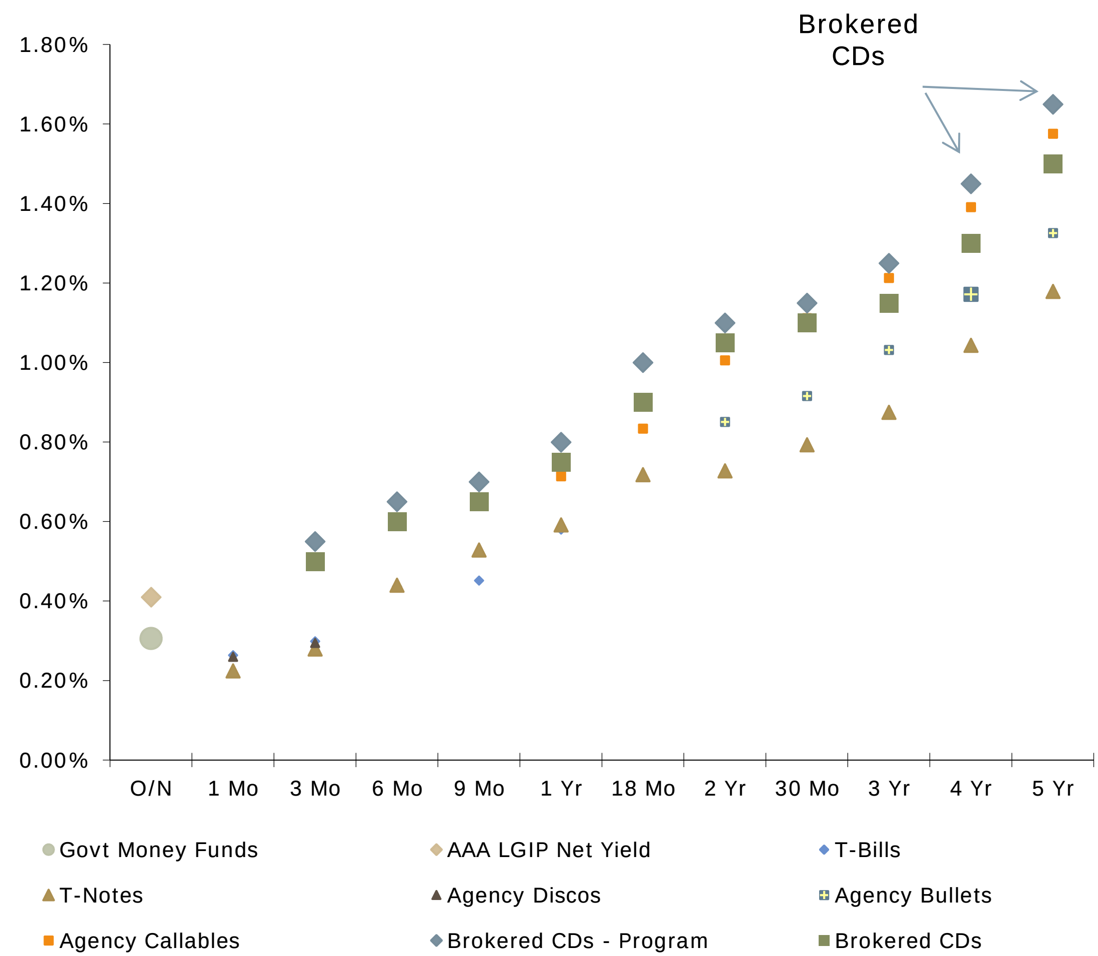
Cross Sector Relative Value 0 – 5 Years



Source: Wells Fargo Securities, Bloomberg, iMoneyNet, DTCC

In the government space, the highest yielding alternative is the FDIC insured Brokered CD market.

Government Cross Sector Relative Value 0 – 5 Years



Source: Wells Fargo Securities, Bloomberg

Municipals vs. Corporates and Treasuries

From the Standpoint of Cumulative Default Equivalency, the Crossover of Municipal Issuer Default and Corporate Default is separated by three full letter ratings.

S&P Rating	Municipal (%)	Corporate (%)
AAA	0.00	1.09
AA	0.06	1.15
A	0.10	2.77
BBB	0.39	7.71
BB	2.04	20.52
B	8.84	34.54
CCC/C	41.45	56.55
High Grade	0.15	3.83
High Yield	6.75	29.40

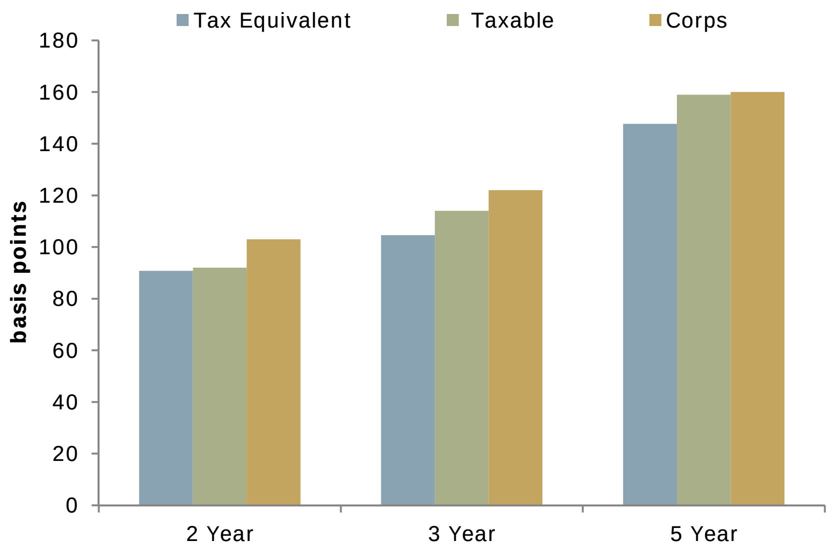
S&P 15-year Cumulative Default Study Period: *Municipals – 1986 – 2010, Corporates – 1981 - 2010*

Source: S&P, Wells Fargo Securities, LLC

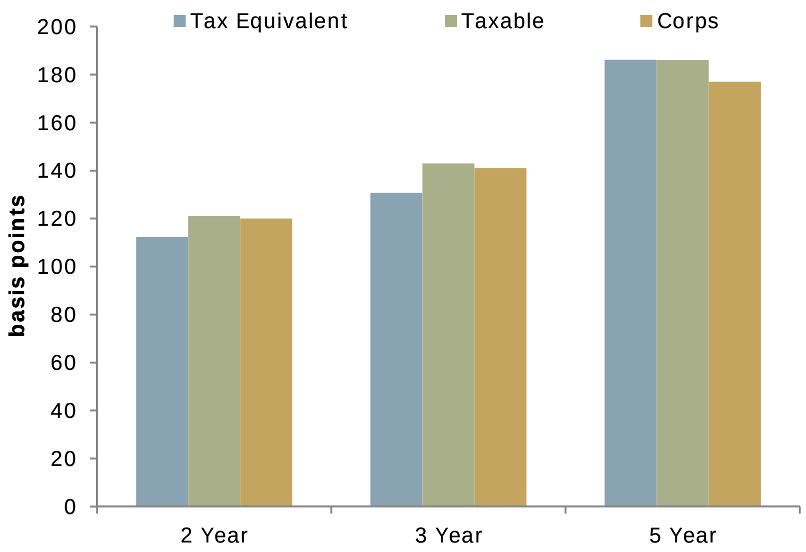
Investment Landscape: Municipals vs. Corporates

From the standpoint of current yields in corporates vs. municipals, short corporates are generally more attractive compared to tax equivalent and taxable municipals.

AA-Rated Corps vs. Munis



A-Rated Corps vs. Munis



Source: Wells Fargo Securities, LLC, Bloomberg, Thompson Reuters

Muni/Treasury ratios have fallen across the short-end of the curve as Muni rates have fallen.

	Treasury Yield	AAA Muni vs. TSY	AAA Muni TEY vs. TSY	A Muni vs. TSY	A Muni TEY vs. TSY
1-Year	0.57%	81.0%	**124.6%**	112.7%	**173.3%**
2-Year	0.70%	74.0%	**113.8%**	103.8%	**159.8%**
3-Year	0.82%	73.2%	**112.6%**	103.7%	**159.5%**
5-Year	1.11%	76.6%	**117.8%**	109.0%	**167.7%**
7-Year	1.37%	82.2%	**126.5%**	112.8%	**173.6%**

Source: Wells Fargo Securities, LLC, Bloomberg, Thompson Reuters

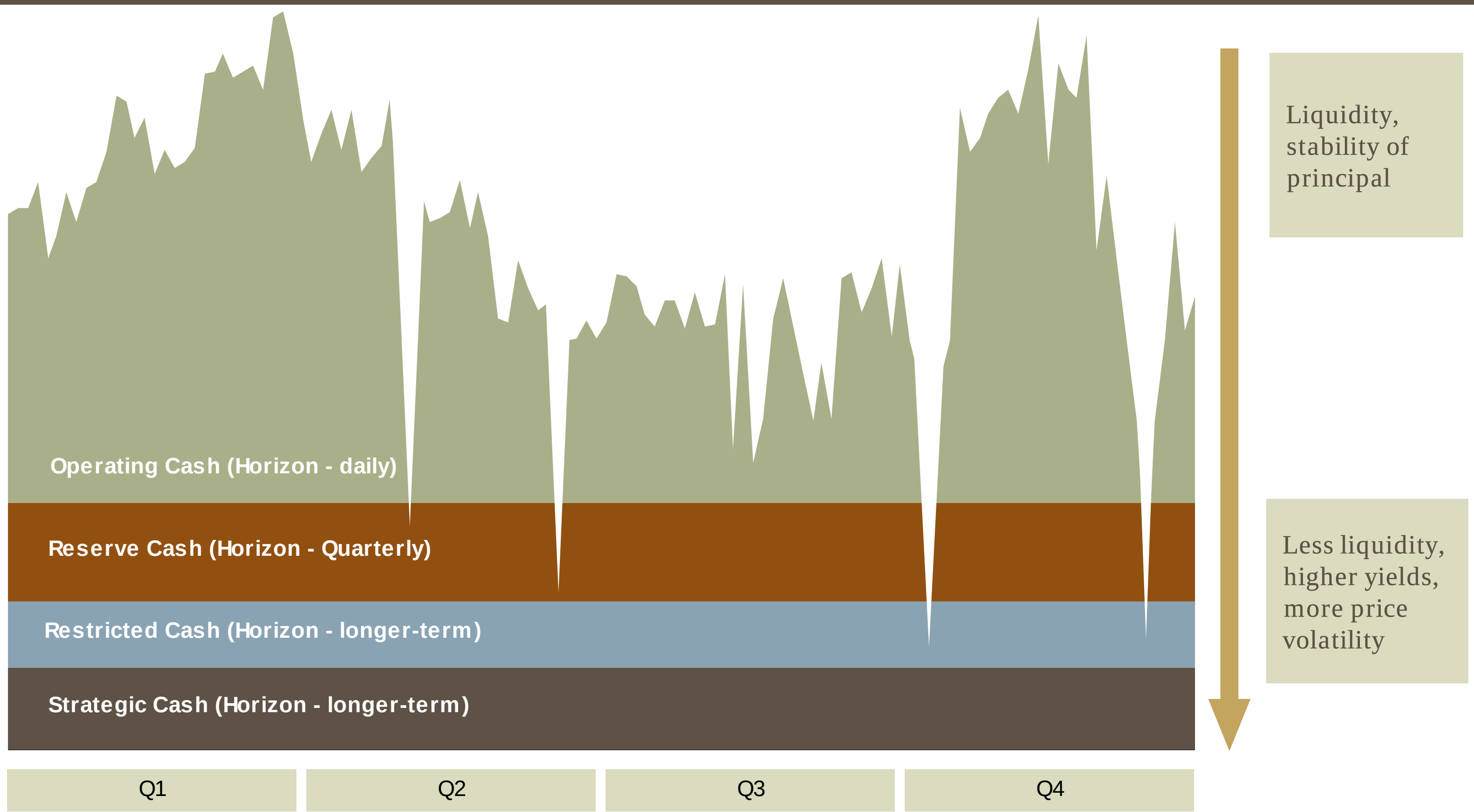
Tactical Liquidity

- Portfolio Segmentation to Optimize Investment Objectives

Positioning Corporate Cash Portfolios

Curve steepening in the current environment is causing investors to look at their strategic cash allocations to see if there are opportunities to extend or introduce new asset classes.

Segmentation of the Corporate/Public Cash Portfolio (*for illustrative purposes only)*



Source: ICI, Wells Fargo Securities, LLC

Corporate Cash Portfolio Segments have different Durations, Objectives, Strategies and Return Expectations

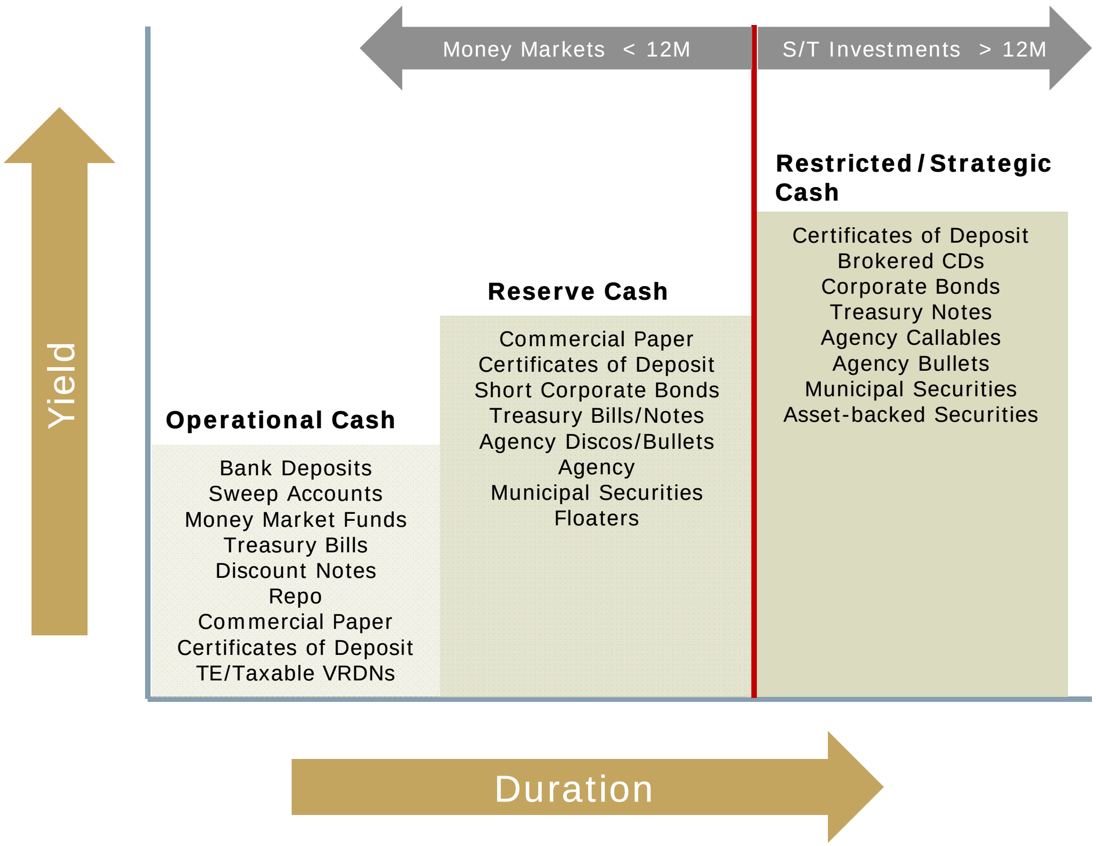
	Operating Cash	Reserve/Core Cash	Strategic Cash
Investment Horizon	0 – 6 months	6 months – 2 years	1 – 5 years
Portfolio Duration	30 - 90 Days	6 – 18 months	2 – 3 years
Cash Flow Volatility	High	Low/Maturity Matched	Very Low/Maturity Matched
Strategy	Money Market/Cash Equivalents	Incremental Duration and Credit Risk	Incremental Duration and Credit Risk
Benchmark	N/A	Treasury-based LIBOR "+" -based	Index-based (strategy-specific)

Source: Wells Fargo Securities, LLC

Positioning Corporate Cash Portfolios

Products can be placed in multiple buckets. However, certain products are more suited to certain investment styles based on relative liquidity and duration profiles.

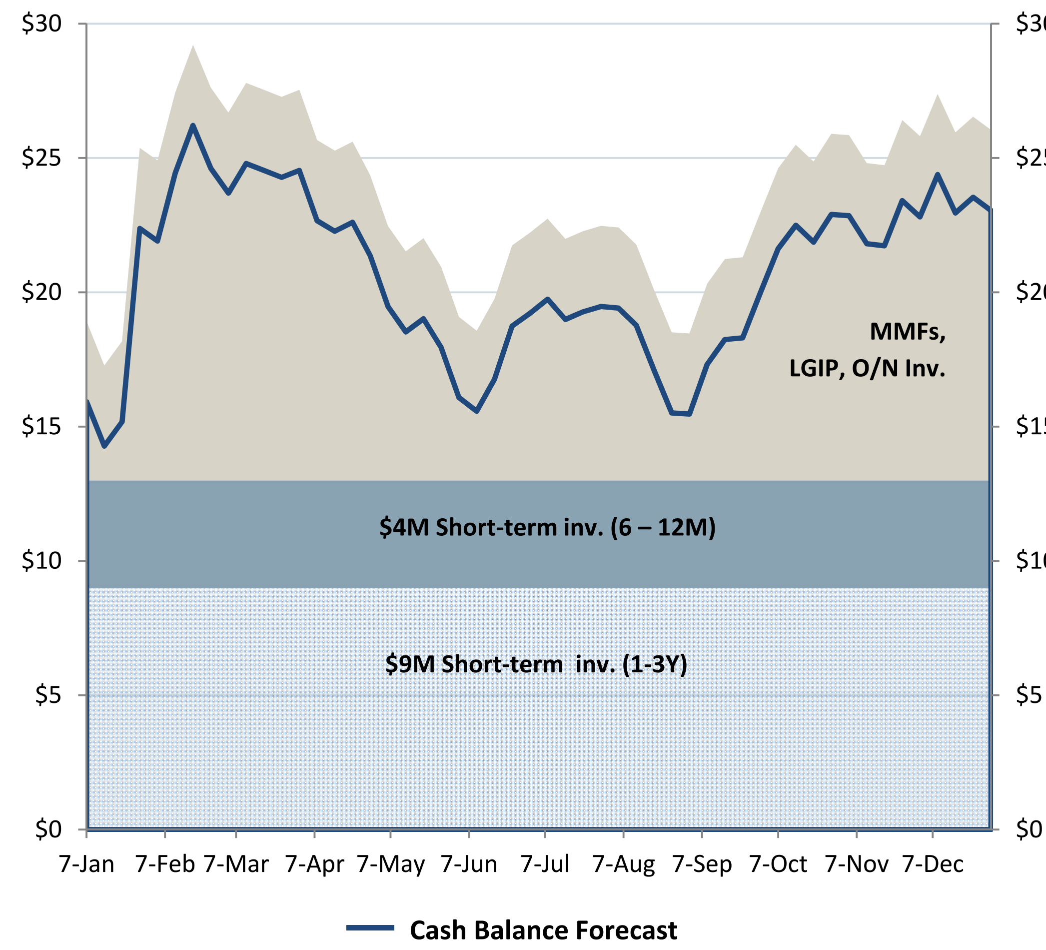
Product Segmentation Across Liquidity Buckets



Source: Wells Fargo Securities, LLC

The Basic Approach manages all expected cash outflows through existing cash balances, represented by the grey area. The cash balances represented by the light and dark blue areas are not anticipated to be used and can be invested further out on the curve to augment yield.

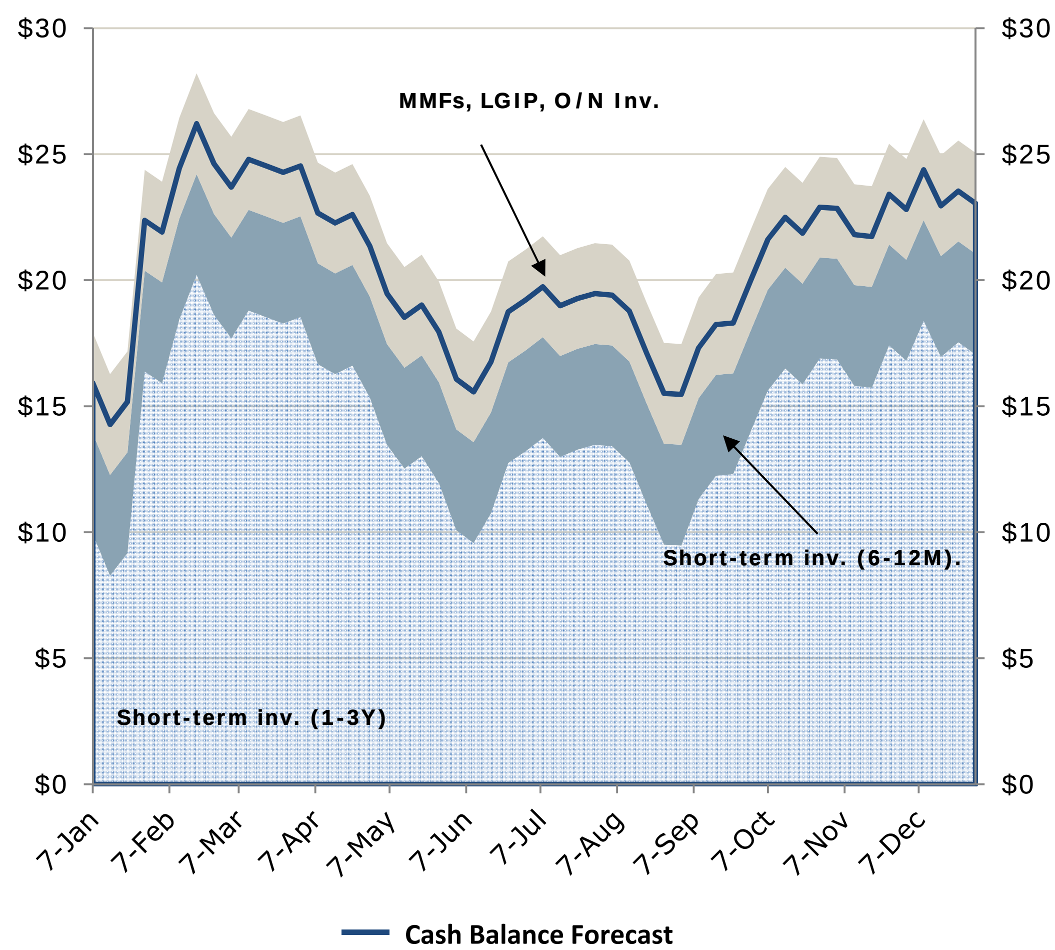
Basic Approach



Source: Wells Fargo Securities, LLC

The Maturity Matching Approach identifies the size and dates of known cash outflows and invests an equivalent amount of cash to those dates. Liquidity is partially managed through maturity matching, allowing short-term investments to constitute a larger part of the overall portfolio.

Maturity Matching Approach



Source: Wells Fargo Securities, LLC

Money Fund Reform and What does it mean for Short-term investors?

Disclosure Appendix

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