Asset Allocation Strategy

January 3, 2017

Tactical shifts.
See pages 14-17.

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Investment Themes for 2017: Seeing Things Differently

Each year, we develop four themes that are designed to illuminate the opportunity set, risks, and actions for investors to consider in the coming year. As with investment time horizons, these themes may play out over a multi-year time period. Our Outlook 2017 report discusses these themes in detail.

1. The Divided Recovery

Wage and real-income stagnation may be fueling protectionism and geopolitical unrest. Technology and innovation may be contributing to job/worker mismatch. We are currently in the latter stages of the business cycle, but this recovery has lagged prior recoveries, and the benefits have accrued unevenly to different groups of investors, workers, and countries. Fixed-income assets can help stabilize portfolio values in times of market distress; we favor intermediate-term high-quality U.S. corporate bonds within a well-diversified portfolio.

2. Policies of Change

Despite the record amounts of stimulus provided by global central banks since the financial crisis, many developed countries are struggling to rejuvenate their economies. Old and new government policies will attempt to extend the maturing economic cycle. The mix of policies should create potential opportunities, but investors may need to be more selective. Alternative investments can take advantage of the maturing economic cycle, which we expect to increase price dispersion in equity markets.

3. The Agile Investor

In navigating the complexities of today's economic environment, market participants appear especially sensitive to macro conditions. Investors may be challenged to generate returns amid an uncertain political and financial landscape, mounting government deficits, and an increase in consumer and business skepticism. We anticipate potential opportunities for those who are able to determine which industries will benefit from the next phase of globalization, expanding populations, and other trends. In this environment, tactical decisions may enhance performance returns. We also see value in using both active and passive strategies.

4. Investing Across Generations

Many feel the U.S. is facing a retirement crisis, exacerbated by perpetually low interest rates. Additionally, the largest generational transfer of wealth is expected to occur over the next several decades. Baby Boomers and Millennials are trading places as the latter demographic becomes the largest working generation while the former retires from the workforce. Boomers may want to acknowledge their expected longevity by including growth assets in their portfolios, while younger workers should start saving as early as possible for their retirement.

While we may see more unexpected outcomes in 2017, investors needn't be caught off guard by them. It is our response to unforeseen events that matters. When making investment choices, we recommend a broad perspective that considers today's complex and uncertain world. The understanding of some fundamental financial concepts can help investors avoid emotional decisions and help keep them on track to accomplish their objectives. These concepts include maintaining appropriate levels of cash alternative investments, setting appropriate time horizons, and utilizing an appropriate asset allocation strategy.

Global Economic Summary

United States

The second look at third-quarter U.S. gross domestic product (GDP) showed that the economy grew by 3.2 percent at an annualized rate. Personal consumption increased at a 2.8 percent annualized rate.

November's U.S. employment showed 178,000 net jobs added. The unemployment rate decreased to 4.6 percent, and the labor-force participation rate declined to 62.7 percent. Wages decreased -0.1 percent for the month and are up 2.5 percent year-over-year.

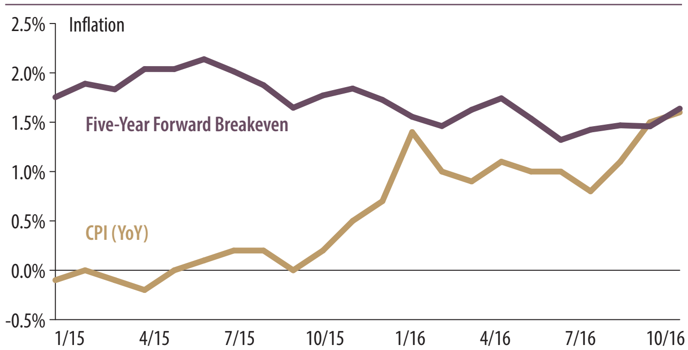
The Consumer Price Index (CPI) rose by 0.4 percent in October and 1.6 percent from a year ago. Excluding the more volatile food and energy components, CPI rose by 0.1 percent and 2.1 percent, respectively.

November's Institute for Supply Management (ISM) manufacturing survey improved from 51.9 to 53.2; the ISM services survey increased from 54.8 to 57.2 (a reading above 50 indicates expansion).

Consumer confidence rose to a post-recession high in November, from a revised 100.8 to 107.1. Strong market performance following the U.S. elections pushed both the assessment of present conditions and expectations for the future higher.

The housing market posted mixed results in October. Housing starts increased 25.5 percent and building permits rose by 0.3 percent. Existing-home sales increased 2.0 percent, to a seasonally-adjusted 5.60 million-unit annual pace. Yet, new home sales declined by -1.9 percent to a seasonally-adjusted annual rate of 563,000 units.

Current and Future Inflation Gauges Point to Increased Inflationary Pressure



Source: Bloomberg, 12/5/16

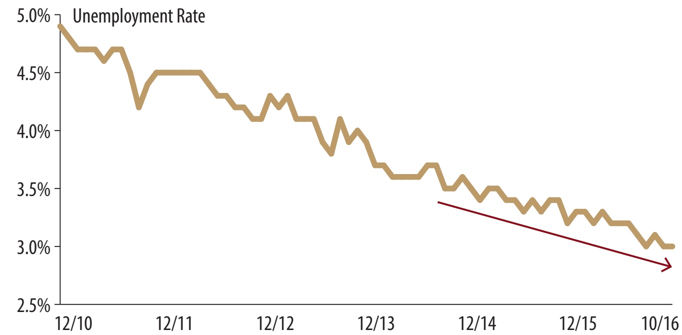
Europe

A second look at third-quarter Eurozone GDP showed growth of 1.6 percent on a year-over-year basis. This pace of growth was in line with activity in the second quarter. Favorable bank lending conditions, coupled with a rebound in business and consumer sentiment, appear promising for the Eurozone economy.

Year-over-year growth in consumer price inflation in the Eurozone ticked up to 0.6 percent during November. Stabilization in energy prices in 2016 has contributed to a rebound in inflationary pressures, bringing the headline measure of inflation up to an 18-month high.

Business confidence in the UK ticked slightly lower in November after rising to a six-month high in October. Business sentiment has been slowly improving following the Brexit decision.

Japan's Unemployment Rate Fell to a Decade Low in October



Source: Bloomberg, 12/5/16

Asia

A report from Japan's Ministry of Internal Affairs and Communications on labor-market conditions showed that the rate of unemployed workers in Japan fell to a decade low in October, at 3.0 percent.

News agency Caixin reported that its manufacturing purchasing managers' index (PMI) for China softened to 50.9 in November from 51.2 in October. Manufacturing sentiment in China has steadily improved in recent months after falling to a year low in February.

In October, home prices of newly-constructed residential buildings increased in 65 of China's 70 largest cities, easing angst about overcapacity yet stirring concerns about another housing bubble.

Key Economic Statistics

Global Growth Rates	4Q16	3Q16	2Q16
U.S. Real Economic Growth (GDP)[1]	2.2%[a]	3.2%	1.4%
Eurozone Real Economic Growth[1]	N/A	1.4%	1.2%
Japanese Real Economic Growth[1]	0.8%[a]	1.3%	1.8%
Chinese Real Economic Growth[2]	6.7%[a]	6.7%	6.7%
Key U.S. Economic Data	**11/16**	**10/16**	**11/15**
Unemployment Rate	4.6%	4.9%	5.0%
Leading Economic Index (LEI)	0.2%[a]	0.1%	0.4%
Durable Goods Orders	-3.5%	4.6%	-0.9%
ISM Manufacturing	53.2	51.9	48.4
ISM Service	57.2	54.8	56.6
Retail Sales	0.3%[a]	0.8%	0.4%
Consumer Confidence	107.1	100.8	92.6
New Home Sales (millions)	0.575[a]	0.563	0.508
Existing Home Sales (millions)	5.57[a]	5.6	4.86
U.S. Dollar Index	101.50	98.45	100.17
U.S. Inflation	**11/16**	**10/16**	**YoY**
Consumer Price Index (CPI)	0.2%[a]	0.4%	1.7%[a,2]
(Core)	0.2%[a]	0.1%	2.2%[a,2]
Producer Price Index (PPI)	0.1%[a]	0.0%	0.9%[a,2]
(Core)	0.2%[a]	-0.2%	1.3%[a,2]

[1] Annualized Q/Q % change; [2] Year-over-year % change
[a] Bloomberg survey estimate, [b] FactSet estimate
Data source: Bloomberg, FactSet; 11/30/16
See end of report for important definitions and disclosures.

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Market Summary

Fixed Income

In November, all bond classes declined—as post-election concerns over growth-oriented policies and tax cuts combined with Federal Reserve (Fed) rate-hike expectations to drive 10-year U.S. Treasury yields sharply higher (and bond prices lower). Longer-maturity positions were hit hardest as the new administration's business-friendly platform fueled inflation concerns. While November's decline trimmed year-to-date (YTD) gains, all major classes remained positive YTD except municipal bonds, which have fallen by -0.9 percent so far this year.

Market Observations

U.S. Fixed Income: Most domestic bond sectors had single-digit monthly declines as 10-year Treasury yields rose by 56 basis points in November. Yields rose more dramatically on the longer end of the yield curve on fears that the new administration's policies could stoke inflation.

Municipal bonds returned -3.7 percent in November as concerns over fiscal stimulus and prospects for a reduced individual-tax rate weighed heavily on the sector. Weekly municipal-fund outflows exceeded inflows for the first time in more than a year. While we expect that a lower individual tax rate would have a negative market impact on municipals, the magnitude and timing of this potential change are unclear. Policy changes that could have a larger negative impact, such as reevaluating the municipal exemption or capping benefits, appear less likely. While we expect yield volatility to continue through year-end, we view this as a potential buying opportunity for long-term municipal investors. Favorable municipal-to-Treasury yield ratios and limited supply should be supportive in the near term.

Developed Markets: The U.S.-election impact also dominated returns in developed and emerging fixed-income markets. U.S. dollar (USD) strength vs. the euro and yen meant that unhedged developed-market (DM) bonds (-5.5 percent) severely underperformed hedged (-1.1 percent). U.S. Treasury securities were the worst DM performers in local-currency (LC) terms. When returns are translated into dollars, only the UK, New Zealand, and Canada outperformed the U.S. Only UK Gilts were positive, as the already-depressed pound was seen as one of the few gainers from the new international configuration. Japan was the worst DM performer, losing 8.5 percent in November, almost entirely due to currency weakness. Spain, Italy, and France also did poorly (all down around five percent), on concerns about spreading populism and mounting political risks within the Eurozone.

Emerging Markets: Emerging-market (EM) currencies were hit hard by post-election fears over trade and immigration. The Mexican peso fell heavily, while the Turkish lira dropped the most on growing domestic political concerns. In November, LC-denominated bonds declined by more than seven percent in U.S. dollar (USD) terms, cutting YTD dollar-based returns to just over nine percent. Dollar-denominated sovereign EM bonds fared poorly as Treasury yields rose and spreads widened (-4.2 percent). Yet their YTD performance (+8.6 percent) remains strong. Mexico and Turkey underperformed in both local and USD-denominated markets. India was the standout local-market performer, +1.7 percent for dollar-based investors. Oil exporters such as Colombia and Russia performed relatively well, as oil prices rose on the Organization of Petroleum Exporting Countries (OPEC) deal.

Fixed Income Index Total Returns—As of 11/30/16

	MTD	QTD	YTD	1 Year	3 Year	5 Year
U.S. Taxable Inv Grade Fixed Income	-2.4%	-3.1%	2.5%	2.2%	2.8%	2.4%
U.S. Short Term Taxable	-0.4%	-0.4%	1.2%	1.1%	0.9%	1.0%
U.S. Intermediate Term Taxable	-2.1%	-2.6%	1.9%	1.7%	2.5%	2.4%
U.S. Long Term Taxable	-5.8%	-8.5%	5.9%	5.1%	6.2%	4.4%
U.S. Treasury Bills	0.0%	0.0%	0.2%	0.2%	0.1%	0.1%
U.S. Municipal Bonds	-3.7%	-4.7%	-0.9%	-0.2%	3.6%	3.4%
High Yield Taxable Fixed Income	-0.5%	-0.1%	15.0%	12.1%	4.2%	7.5%
DM Ex.-U.S. Fixed Income (Unhedged)	-5.5%	-10.1%	2.9%	4.5%	-1.9%	-1.6%
DM Ex.-U.S. Fixed Income (Hedged)	-1.1%	-2.6%	5.0%	4.8%	5.3%	5.0%
EM Fixed Income (U.S. Dollar)	-4.2%	-5.6%	8.6%	7.0%	5.3%	5.4%
EM Fixed Income (Local Currency)[1]	-7.3%	-7.2%	9.1%	6.6%	-4.9%	-2.3%

Inv Grade indicates Investment Grade; DM indicates Developed Market; EM indicates Emerging Market.
Past performance is no guarantee of future results.
Returns over one year are annualized.
[1] Returns are converted to dollars for U.S. investors.
Sources: Bloomberg Barclays, J.P. Morgan
See end of report for important definitions and disclosures.

Wells Fargo Investment Institute Perspective

We expect continued interest-rate volatility as investors digest the possibility of U.S. fiscal stimulus and Fed rate hikes—and evaluate the path of future rate increases. Given the recent rise in yields, we recommend an evenweight stance in duration positioning vs. benchmarks, and we continue to favor intermediate maturities. We are underweight high yield and advise investors to consider moving up in credit quality where possible.

Although bond prices have fallen in the wake of the U.S. election, we maintain our DM-debt underweight as yields remain below Treasury yields, and relative value vs. Treasury securities has not improved. While longer-term fundamentals and post-election trading momentum still favor the dollar, our yen and euro forecasts imply a neutral or only somewhat stronger USD view by the end of 2017. As we are already underweight DM bonds, we do not recommend hedging DM bond holdings.

We are evenweight on USD-denominated EM debt. We believe that dollar-denominated debt should be better insulated than LC bonds in the event of further EM foreign-exchange declines. There likely will be both winners and losers from the global-environment changes in 2017, especially if oil prices can stabilize after an OPEC agreement. As our strategic benchmark is dollar-denominated, we would require a higher degree of conviction to add LC risk today. We therefore maintain a 100 percent dollar-denominated EM strategy.

For more information, please request our *Global Fixed Income Strategy* report.

Market Summary

Equities

Following the election, all of the major domestic equity indices notched all-time record highs. Yet EM and DM equities both declined in November. Volatility, as measured by the CBOE Volatility Index® (VIX®), has been quite subdued since mid-November as U.S. equity markets have moved higher. Investors appear confident that the new administration and Republican-controlled Congress will implement strategies likely to propel the economy ahead in the coming years. Economic data, overall, has continued to buoy domestic markets.

Market Observations

Equity trading volume rose after President-elect Trump's victory. Treasury securities plunged on the news, while U.S. equities and the dollar rallied. Strength in domestic equities and the dollar stemmed from investors' expectations that President-elect Trump and the Republican-controlled Congress will implement business-friendly policies.

U.S. Equities: While the S&P 500 Index delivered strong monthly and year-to-date (YTD) returns, small- and mid-cap equities outperformed the S&P 500 Index for both periods.

The Financials sector of the S&P 500 Index delivered a strong double-digit monthly and YTD return, as momentum continued. With the Fed rate increase largely priced into the market, the movement primarily came from the U.S. election results and the possibility of less-stringent regulation. The sector returned 10.9 percent in the five days following the election. Industrials and Energy rounded out the top three performers. Industrials responded positively to the possibility of increased infrastructure spending.

The traditionally high-dividend Utilities and Consumer Staples sectors had the largest monthly losses. The sell-off can be partially explained by the increase in bond yields.

Mid- and small-cap sector performance was similar to that of the S&P 500 Index. The more cyclical sectors such as Energy, Materials, and Durables led in both indices. Most of the gains came in anticipation of infrastructure spending. The high-dividend Consumer Staples and Utilities sectors were at the bottom of the pack.

International Equities: EM and DM equities substantially underperformed the S&P 500 Index in November, but EM equities have delivered double-digit YTD returns in U.S. dollars. EM economies are slowly on the mend as stabilization in DM economies appears to be on tap.

Dollar appreciation in November fueled a monthly DM equity decline for U.S. investors. Canada led DMs. The Canadian market is largely concentrated in Financials and Energy. Financials gained on higher Canadian yields, while Energy producers climbed on renewed optimism for an OPEC production cut. Spain was the largest detractor, falling 8.5 percent in U.S. dollar terms, after the U.S. election.

November was a challenging month for EM equities. All major countries declined, aside from Russia (+4.8 percent in U.S. dollar terms). Turkey had the weakest performance, amid lagging fundamentals and political discord.

Equity Index Total Returns—As of 11/30/16

	MTD	QTD	YTD	1 Year	3 Year	5 Year
U.S. Large Cap Equities	3.7%	1.8%	9.8%	8.1%	9.1%	14.4%
U.S. Large Cap (Growth)	2.2%	-0.2%	5.8%	4.2%	9.1%	14.1%
U.S. Large Cap (Value)	5.7%	4.1%	14.5%	12.0%	8.6%	14.7%
U.S. Mid Cap Equities	5.4%	2.0%	12.5%	9.5%	8.6%	14.4%
U.S. Mid Cap (Growth)	4.3%	0.1%	7.0%	4.5%	7.2%	13.1%
U.S. Mid Cap (Value)	6.3%	3.7%	17.9%	14.3%	9.8%	15.6%
U.S. Small Cap Equities	11.2%	5.9%	18.0%	12.1%	6.5%	14.0%
U.S. Small Cap (Growth)	8.9%	2.2%	9.8%	4.6%	5.3%	13.4%
U.S. Small Cap (Value)	13.3%	9.5%	26.5%	19.8%	7.5%	14.5%
DM Equities Ex-U.S. (USD)	-2.0%	-4.0%	-1.9%	-3.2%	-1.8%	6.1%
DM Equities Ex-U.S. (Local)[1]	1.2%	2.5%	1.3%	-1.5%	4.9%	11.5%
EM Equities (USD)	-4.6%	-4.4%	11.3%	8.9%	-2.8%	1.3%
EM Equities (Local)[1]	-2.2%	-1.6%	9.9%	8.8%	2.8%	6.0%
FM Equities (USD)	-1.8%	-2.2%	0.4%	0.1%	-1.9%	4.8%
FM Equities (Local)[1]	-1.0%	-0.8%	5.8%	5.1%	3.4%	8.5%

DM indicates Developed Market; EM indicates Emerging Market; FM indicates Frontier Market; USD indicates U.S. Dollar.
Past performance is no guarantee of future results.
Returns over one year are annualized.
[1] Returns are in local currencies as experienced by local investors. U.S. investors would experience gains or losses on currency conversion.
Sources: Standard & Poor's, Russell Indexes, MSCI Barra
See end of report for important definitions and disclosures.

Wells Fargo Investment Institute Perspective

In December 2016, we increased our year-end 2017 target price ranges for large- and mid-cap domestic equities—and boosted our EM equity weighting to evenweight from underweight. We expect the modest growth/modest inflation domestic environment that we have observed in recent years to remain intact throughout 2017. Large-cap U.S. stocks have performed well in this type of environment since the March 2009 lows. It has taken more than seven years, but we believe that the S&P 500 Index is trading at or near "fair value" for this point in time. As a result (and given the fact that the S&P 500 is currently trading inside our 2017 year-end target range), we recently moved large–cap domestic equities to evenweight from overweight.

S&P 500 Index earnings results were better than expected in the third quarter of 2016. In our opinion, we are now past the earnings recession as third-quarter results showed earnings growth of four percent vs. the year-ago period. We predict further improvement in fourth-quarter 2016 results and in 2017.

We largely favor the more cyclical sectors that are sensitive to the ebb and flow of the domestic economy. We maintain an underweight position in small-cap equities and are evenweight on all other major equity classes.

For more information, please request our *Global Equity Strategy* report.

Market Summary

Real Assets

REITs and MLPs

Market Observations

There were three main drivers for real assets in November: the election, interest rates, and OPEC.

Real Estate Investment Trusts (REITs): Global REITs were down for the month, in the U.S. and abroad. The spike in interest rates hurt many yield investments, and REITs were not spared. REITs were down significantly from their all-time highs over the summer and have given up most of their gains for the year. Yet fundamentals are still generally supportive of REITs, with near-record-low vacancy rates, positive returns in commercial real estate, and an upbeat economic outlook. We recently moved to an overweight on this asset class given improved valuations following its recent underperformance, along with our expectation that long-term yields will not rise much more (if at all) in 2017. Potential headwinds include higher interest rates and negative economic or fundamental surprises.

Master Limited Partnerships (MLPs): MLPs, like REITs, are yield investments. If investors focused solely on the election and the subsequent surge in interest rates, they might have expected MLPs to decline in November. But this was not the case as MLPs posted a positive monthly return despite the drag of higher rates. This was largely due to OPEC's announcement of the production-cut agreement which prompted oil prices to rise, and, in turn, buoyed MLPs. While interest rates attempted to weigh on MLPs, positive news and oil-price action drove MLPs higher in November. In this tug-of-war between interest rates and oil prices, oil was victorious. We remain evenweight on MLPs and believe investors should focus on higher-quality partnerships. Downside risks include the possibility for continued oil oversupply along with the potential for collapsing prices, and higher interest rates.

Real Assets Index Total Returns, REITs and MLPs—As of 11/30/16

	MTD	QTD	YTD	1 Year	3 Year	5 Year
Public Real Estate	-2.7%	-8.2%	1.9%	2.8%	5.8%	9.9%
Domestic REITs	-2.4%	-7.4%	4.0%	5.4%	11.2%	12.0%
International REITs	-3.5%	-8.7%	0.8%	0.6%	0.2%	7.7%
Master Limited Partnerships	2.3%	-2.3%	13.3%	9.3%	-6.6%	2.5%

Past performance is no guarantee of future results.
Returns over one year are annualized.
Sources: FTSE, Alerian
See end of report for important definitions and disclosures.

Wells Fargo Investment Institute Perspective

REITs and MLPs typically provide greater income opportunities for investors, but the main drivers for these two sectors are dramatically different. For REITs, fundamentals remain generally supportive, and we have added exposure through our tactical overweight. For MLPs, investors' search for yield serves as support. We expect headwinds if oil supply continues to outpace demand. We advise selecting midstream MLPs that are large and liquid with high-quality balance sheets.

Commodities

Market Observations

Commodity prices ended November slightly higher, led by stronger energy and base-metal prices. Dollar strength and the potential for higher interest rates continue to be headwinds for commodity prices. Prices have started to stabilize after a volatile first half of the year. While we have observed signs of production cuts, demand has not picked up enough to maintain the positive performance from earlier this year.

Metals: Gold and silver prices continued to fall in November as the dollar strengthened. The stronger dollar and concerns about higher interest rates continue to pressure precious-metal prices. Prices could continue to decline as the market focuses on Fed rate increases. Copper and other base metals have rallied after the election, as the market expects an increase in infrastructure spending—which could support demand for base metals. While strength in the U.S. housing market and increased Chinese demand also have supported base-metal prices, higher interest rates could limit further gains.

Energy: Crude-oil prices performed well in the second half of the month after remaining in the mid $40s for most of November. News that OPEC had reached a deal to limit production sent oil prices into the upper $40s. An OPEC production cut could keep prices elevated in the $45–$60 range in coming months before they return to our $40–$50 year-end 2017 target range. Volatility could pick up if investors become concerned about production levels again, especially in non-OPEC countries. However, we expect prices to stabilize as demand and supply continue to balance. Natural-gas prices also improved in November on signs of stronger demand stemming from expectations of lower-than-normal temperatures this winter. Inventories remain above historical averages. Yet, if demand picks up meaningfully, storages could be drawn down more than expected this winter, boosting prices.

Agriculture: Agricultural commodities underperformed in November, despite signs of healthy foreign demand. Excess global supply in most agricultural commodities continues to limit gains in prices, which were range-bound in November. Prices have stayed above mid-year lows due to the pickup in demand. However, a strong U.S. dollar and ample supplies could continue to be headwinds for prices.

Real Assets Index Total Returns, Commodities—As of 11/30/16

	MTD	QTD	YTD	1 Year	3 Year	5 Year
Commodities (S&P GSCI)	2.5%	1.0%	6.4%	-2.8%	-21.3%	-14.3%
Commodities (BCOM)	1.3%	0.8%	9.8%	6.4%	-11.4%	-10.0%
Commodities (RICI)	2.0%	1.2%	10.6%	5.4%	-13.6%	-9.5%

Past performance is no guarantee of future results.
Returns over one year are annualized.
Source: Bloomberg
See end of report for important definitions and disclosures.

Wells Fargo Investment Institute Perspective

Commodity prices continue to suffer headwinds from benign inflation, U.S.-dollar strength, and sluggish economic growth. We anticipate periodic moves in the dollar that could increase near-term price uncertainty. Overall, this asset class may be entering a range-bound period and could underperform in 2017. We recommend a tactical underweight to this asset class.

For more information, please request our *Global Real Assets Strategy* report.

Market Summary

Alternative Investments*

Early estimates from HFR indicate positive returns in November, though portfolio hedges resulted in underperformance vs. both domestic and global equity benchmarks. Pre-election uncertainty led to defensive positioning in many strategies, but managers were quick to shift exposures as momentum accelerated into month-end.

Subsector Results

Relative Value managers posted modest gains as the rise in yields provided trading opportunities throughout the month. Asset-backed securities benefited from increased demand and improving fundamentals.

Macro strategies were challenged by abrupt moves in fixed-income markets, as the spike in yields hurt long futures positions. However, losses were somewhat offset by gains from copper and equity positions.

Credit markets continued to show signs of stabilization, benefiting **Event Driven** managers with a focus on distressed debt. Corporate activity was strong in November, with expectations that President-elect Trump's pro-business policies will extend the merger and acquisition (M&A) cycle.

Equity Hedge managers navigated a significant sector rotation in November, especially within the Financials, Health Care, and Consumer Discretionary sectors. Both dispersion and correlation currently remain supportive of security selection.

Alternative Investments Index Total Returns—As of 11/30/16

	MTD	QTD	YTD	1 Year	3 Year	5 Year
Global Hedge Funds	0.9%	0.4%	4.6%	3.4%	2.5%	4.2%
Relative Value	0.4%	0.7%	6.4%	5.5%	3.6%	5.6%
Arbitrage	-0.6%	-0.4%	5.9%	5.3%	2.6%	2.9%
Long/Short Credit	-0.2%	0.6%	9.3%	8.1%	3.1%	5.1%
Struct Credit/Asset-Backed	0.8%	1.7%	4.7%	4.6%	5.4%	8.5%
Macro	-0.2%	-1.4%	0.3%	-1.1%	1.7%	0.7%
Systematic	-0.5%	-3.1%	-2.1%	-4.5%	2.1%	0.5%
Discretionary	-1.7%	-0.3%	-1.8%	-2.9%	-0.8%	0.2%
Event Driven	2.2%	2.5%	9.4%	8.3%	2.6%	5.5%
Activist	6.3%	3.6%	8.8%	7.8%	5.9%	10.2%
Distressed Credit	1.6%	3.4%	12.7%	10.4%	1.1%	5.3%
Merger Arbitrage	1.2%	0.8%	2.9%	4.0%	2.8%	3.1%
Equity Hedge	1.5%	0.6%	4.8%	3.6%	2.3%	5.2%
Directional Equity	1.2%	0.3%	4.0%	2.1%	2.6%	5.4%
Equity Market Neutral	0.9%	1.0%	1.8%	1.7%	3.1%	3.8%

Past performance is no guarantee of future results.
Returns over one year are annualized.
Source: Hedge Fund Research, Inc.
See end of report for important definitions and disclosures.

Market Observations

The U.S. election result seems to have sparked an abrupt pivot away from monetary policy and toward fiscal policy—a shift that happened more quickly than many pundits (and hedge-fund managers) expected. Security selection, at least over the next few months, will be largely predicated on analyzing the winners and losers of a pro-business administration combined with higher U.S. interest rates and a stronger dollar. While managers are more bullish than they were just weeks earlier, they still recognize that geopolitical issues in Europe and China could derail the rally. We anticipate that this cautious optimism will define portfolio construction for the next few months.

Wells Fargo Investment Institute Perspective

Relative Value: We maintain a tactical overweight outlook for Relative Value, as we believe that certain Structured Credit sectors are offering more attractive yields and total-return potential than corporate credit. An increase in fixed-income volatility and credit dispersion is expected to benefit Arbitrage and Long/Short Credit strategies as well.

Macro: We maintain an evenweight position for Macro strategies and expect them to provide valuable diversification to investors in a rising-rate environment. Steeper yield curves should provide more trading opportunities within rates as well as currencies in the near term.

Event Driven: We maintain an underweight recommendation for Event Driven strategies, but are analyzing the impact of the Trump administration on corporate deal activity, regulation, and tax policy. Opportunities within Distressed Credit have become more nuanced as oil has recovered, defaults have softened, and spreads have tightened. Merger Arbitrage could be a beneficiary of the Republican election sweep, but we would like to see deal spreads wider than current levels.

Equity Hedge: We continue to view Equity Hedge as a high-conviction strategy and favor managers with low net-equity exposure. We expect equity volatility to increase in response to higher yields, which bodes well for tactical, trading-oriented managers. Furthermore, fiscal policy will influence fundamentals, providing opportunities between and within sectors.

Private Capital: We remain highly constructive on several prospective Private Capital opportunities and recommend that qualified investors continue to diversify their Private Capital investments by vintage year. Our evenweight recommendation is more representative of our tepid outlook on the Large Buyout strategy than it is reflective of a lack of opportunities in Private Capital—particularly opportunities within Private Debt, which we find compelling.

Private Real Estate: We maintain an evenweight recommendation for Private Real Estate. Despite the recent reduction in core commercial property values, we still believe that many core markets are fully priced or overpriced for new capital investment. We see potential opportunities in more opportunistic global strategies.

For more information, please request our *Global Alternatives Outlook.*

*Alternative investments are not suitable for all investors. Any offer to purchase or sell a specific alternative investment product will be made by the product's official offering documents. Investors could lose all or a substantial amount investing in these products. Please see end of report for important definitions and disclosures.

Investment Themes and Actions for 2017

Theme	Trends	Strategic (Long-Term Investments)	Tactical (Short-Term Opportunities)
The Divided Recovery	The divided recovery has led to unequal benefits for market participants Wage and real-income stagnation may be fueling protectionism and geopolitical unrest Technology and innovation may be contributing to job/worker mismatch	If the expected new policies support faster growth and inflation, equities and real assets should benefit On the contrary, if growth slows or if politics remain unpredictable, bond positions could help stabilize portfolios The potential economic outcomes are broad; we believe that investors should maintain a diversified portfolio	We favor Public Real Estate and high-quality issues within U.S. Intermediate Term Fixed Income Due to heightened uncertainty in Europe, consider an underweight position in Developed Market ex-U.S. Fixed Income Improving earnings growth in emerging economies leads us to upgrade our tactical view of Emerging Market Equities from underweight to evenweight
Policies of Change	The new U.S. administration appears to favor tax cuts and rolling back regulations, which could be positive for U.S. growth Central-bank stimulus programs appear less effective since economic growth slowed in 2015 The new U.S. administration's policies may be more restrictive to global trade	We expect an increased risk for recession beyond 2017 as debt levels and inflation continue to rise and geopolitical stresses build Although fixed income is an important component of many portfolios, volatility in this sector may increase due to higher inflation and speculation about future monetary policy	Overweight Consumer Discretionary, Financials, Industrials, Health Care As we enter 2017, we expect that the more defensive sectors likely will receive less attention from investors Increased price dispersion in equity markets could potentially create an attractive environment for alternative investments
The Agile Investor	We expect several asset classes to trade within a range of values Tactical decisions may enhance asset performance in this environment Active managers may find opportunities to add return in the coming years	We suggest a strategic asset allocation that includes fixed income, equities, real assets, and alternative investments based on long-term investment goals and risk tolerance We recommend rebalancing portfolios regularly to account for shifts in sentiment and asset values	Opportunities should appear for those who are able to determine which industries will benefit from the next phase of globalization, expanding populations, and new technologies Select a mix of active and passive strategies that are appropriate for current market trends
Investing Across Generations	Many feel the U.S. is facing a retirement crisis, exacerbated by perpetually low interest rates Over the next few decades, Baby Boomers and Millennials will be trading places in the workforce The largest generational transfer of wealth (close to $30 trillion) is expected to occur over the next several decades	Younger workers should take advantage of time and start saving for retirement, no matter how small the initial contributions Workers also may consider investing in a tax-deferred Health Savings Account, which is tax-exempt as long as the money is used for covering health-care expenses	Equity holdings are vital for most retirement accounts. Investors may consider owning a mix of dividend-paying, value-tilted stocks for income as well as growth stocks for capital appreciation and an offset to inflation Workers nearing retirement age may be able to take advantage of "catch-up" contributions. The IRS provision allows workers age 50 or older to make additional tax-deferred contributions

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Wells Fargo Investment Institute Forecasts

GDP Growth: The first half of 2016 was slower than expected, but headwinds have eased. Global trade rebounded during the first half but is expected to remain subdued in the near term. China's growth continues to stabilize, largely supported by government spending. Weak U.S. manufacturing activity appears to be turning slowly higher. We see signs of modestly stronger U.S. and international economic activity in the second half, which we expect to continue into 2017. Still, slow global economic and earnings growth leave markets vulnerable to potential shocks, especially unanticipated election results and monetary policies that do not ease as much as investors expect.

Inflation: We expect inflation pressures to stabilize but remain benign in most developed economies. U.S. inflation is likely to increase somewhat, sparked by anticipated new policies that could widen the budget deficit and limit international trade. In other countries, however, lower-for-longer commodity prices and excess factory capacity should constrain inflation. EMs should see falling inflation except in high-debt, low-growth locales like South America and Russia.

Unemployment Rate: The strong labor market is slowly raising wages and producing job openings broadly across the domestic economy. The unemployment rate has declined, but gradually improving labor-force participation has brought workers into the labor force and restrained further unemployment-rate improvements.

Interest Rates: We expect two additional rate increases through year-end 2017 as the Fed continues its cautious approach to rate increases. We believe that the Fed will proceed with rate hikes at a gradual pace. We look for interest-rate volatility to increase given the uncertainties around potential new fiscal proposals and their likely impact on inflation.

Domestic Stocks: Based on our analysis, we believe that the current modest-growth/modest-inflation environment is unlikely to change in the near term. We have slightly increased our year-end 2017 target range for the S&P 500 Index to 2230-2330. We also modestly increased our year-end 2017 target for domestic mid-cap stocks. Small caps typically underperform large caps in latter stages of an economic cycle. We believe that the market has been looking toward improved economic and earnings growth in 2017 for some time. We recommend remaining invested and focusing mainly on sectors more sensitive to the ebb and flow of the economy.

Foreign Stocks: Foreign stocks lagged U.S. stocks by a fairly wide margin in November. We took advantage of this weakness to upgrade EM equities to evenweight (from underweight). We are starting to see economic data stabilize in emerging markets and believe that earnings will show low-double-digit gains for 2017. In developed markets, it will be difficult to focus on fundamentals with several important elections scheduled in 2017. On a positive note, European financial stocks rallied along with U.S. financials in November, given a higher outlook for rates and steeper yield curves across the globe. Banks remain a key group to watch for a turnaround in Europe.

Commodities: We anticipate that WTI crude-oil prices will end 2017 between $40 and $50 a barrel. We expect global supply to balance better against global demand as prices settle in this range. Gold prices have fallen on signs of dollar strength and concerns of higher interest rates. We expect gold prices to end 2017 between $1,150 and $1,250 per troy ounce, as investor sentiment weakens and Fed interest-rate hikes support the dollar.

	2017 Year-End Targets	2016	2015(A)
Global Economy			
Domestic GDP Growth	2.1%	1.9% (E)	2.6%
Domestic Inflation	2.2%	1.4% (E)	0.1%
Domestic Unemployment Rate	4.5%	4.8% (E)	5.0%
Global GDP Growth	3.2%	3.0% (E)	3.1%
Developed-Market GDP Growth	1.7%	1.6% (E)	1.9%
Developed-Market Inflation	1.8%	1.0% (E)	0.5%
Emerging-Market GDP Growth	4.4%	4.1% (E)	4.0%
Emerging-Market Inflation	5.2%	5.7% (E)	5.9%
Eurozone GDP Growth	1.3%	1.2% (E)	2.0%
Eurozone Inflation	1.2%	0.35% (E)	0.2%
Dollar/Euro Exchange Rate	$1.00–$1.08	$1.06	$1.09
Yen/Dollar Exchange Rate	¥95–¥105	¥114	¥120
Global Equities			
S&P 500 Index	2230–2330	2199	2044
S&P 500 Operating Earnings Per Share	$127	$119 (E)	$118
Russell Midcap® Index	1750–1850	1767	1596
Russell Small Cap Index	1170–1270	1322	1136
MSCI Europe, Australasia, Far East (EAFE) Index	1660–1760	1630	1716
MSCI Emerging Markets (EM) Index	850–930	863	794
Global Fixed Income			
10-Year U.S. Treasury Yield	2.00–2.50%	2.38%	2.3%
30-Year U.S. Treasury Yield	2.75–3.25%	3.03%	3.0%
Fed Funds Rate	1.00–1.25%	0.5%	0.4%
Global Real Assets			
West Texas Intermediate Crude Price ($ per barrel)	$40–$50	$49	$37
Brent Crude Price ($ per barrel)	$45–$55	$50	$37
Gold Price ($ per troy ounce)	$1,150–$1,250	$1,174	$1,061

A: Actual as of 11/30/16. E: Estimate. Wells Fargo Investment Institute forecasts. See end of report for important definitions and disclosures. Sources: Wells Fargo Investment Institute, Bloomberg, S&P Capital IQ, 12/15/16. Projections are not guaranteed and are subject to change.

Currencies: Our yen and euro forecasts imply a neutral to somewhat stronger year-end 2017 view of the U.S. dollar. We expect the more-resilient U.S. economy and rising U.S. interest rates to persist, but policy uncertainties in Europe and Japan may produce wide swings higher or lower in the dollar's value. We continue to watch how Europe may respond to steadying inflation and how Japan may respond to its unsuccessful attempts to spark domestic spending and inflation. Additional dollar volatility may emerge as traders anticipate new U.S. policies. Pro-growth fiscal stimulus should favor the dollar, but trade restrictions could trigger international retaliation, higher U.S. inflation, and a weaker dollar. We also have a neutral outlook for the dollar against EM currencies, but U.S. post-election developments should tilt risks toward a stronger dollar. (Please see page 19 for more details.)

Capital Market Assumptions

Fixed Income, Equities, Real Assets and Alternative Investments

Annual update; as of August 2016

Capital market and asset class assumptions are estimates of how asset classes may respond during various market environments. For example, **Downside risk** is based on our assumptions about average returns and the variability of returns. It represents the minimum return that would be statistically likely in 95 percent of annual returns. In other words, in 19 out of 20 years, performance would likely be better than this figure and in the twentieth year it would likely be worse. There is no guarantee that any particular 20-year period would follow this pattern. **Hypothetical returns** represent our estimate of likely average returns over the next several market cycles. They do not represent the returns that an investor should expect in any particular year. **Geometric return** is the compounded annual growth rate of an investment (asset class or portfolio) over a specified period of time longer than one year. **Standard deviation** is a measure of volatility. It reflects the degree of variability surrounding the outcome of an investment decision; the higher the standard deviation, the greater the risk. **Yield** on a bond assumes constant maturity. **Dividend yield** on an equity or real-asset investment represents the projected dividend as a percentage of the purchase price. The assumptions are not designed to predict actual performance, and there are no assurances that any estimates used will be achieved. The information given has been provided as a guide to help with investment planning and does not represent the maximum loss a portfolio could experience.

Capital Market Assumptions

	Asset Class	Hypothetical Arithmetic Return	Hypothetical Geometric Return	Hypothetical Standard Deviation or Risk	Yield or Dividend Yield	Downside Risk
	Inflation	2.5%	2.5%			
	Cash Alternatives	2.5%	2.5%	1.5%	2.5%	0.1%
Fixed Income	U.S. Short Term Taxable Fixed Income	2.6%	2.6%	1.8%	2.6%	-0.2%
Fixed Income	U.S. Intermediate Term Taxable Fixed Income	3.2%	3.1%	5.0%	3.1%	-4.8%
Fixed Income	U.S. Long Term Taxable Fixed Income	3.8%	3.2%	10.5%	3.2%	-12.6%
Fixed Income	Short Term Tax Exempt Fixed Income	2.1%	2.1%	1.8%	2.1%	-0.7%
Fixed Income	Intermediate Term Tax Exempt Fixed Income	2.6%	2.5%	5.0%	2.5%	-5.4%
Fixed Income	Long Term Tax Exempt Fixed Income	3.0%	2.5%	10.5%	2.5%	-13.3%
Fixed Income	Developed Market ex.-U.S. Fixed Income	3.2%	2.8%	8.0%	2.8%	-9.4%
Fixed Income	High Yield Taxable Fixed Income	6.8%	6.1%	12.0%	6.1%	-11.7%
Fixed Income	High Yield Tax Exempt Fixed Income	5.4%	4.8%	12.0%	4.8%	-13.1%
Fixed Income	Emerging Market Fixed Income	6.9%	6.2%	12.5%	6.2%	-12.3%
Fixed Income	Inflation-Linked Fixed Income	3.3%	3.1%	6.0%	3.1%	-6.3%
Fixed Income	Preferred Stock	5.2%	4.5%	12.0%	4.5%	-13.3%
Equities	U.S. Large Cap Equities	8.9%	7.7%	16.5%	2.2%	-16.0%
Equities	U.S. Mid Cap Equities	9.8%	8.3%	18.3%	1.8%	-17.5%
Equities	U.S. Small Cap Equities	10.3%	8.5%	20.0%	1.3%	-19.3%
Equities	Developed Market ex. U.S. Equities	8.9%	7.5%	17.5%	3.3%	-17.4%
Equities	Developed Market ex. U.S. Small Cap Equities	10.0%	8.3%	20.0%	2.0%	-19.5%
Equities	Emerging Market Equities	11.5%	9.0%	24.0%	2.3%	-23.2%
Equities	Frontier Market Equities	11.6%	8.2%	28.0%	3.5%	-27.9%
Real Assets	Public Real Estate	8.7%	7.2%	18.0%	4.0%	-18.2%
Real Assets	Private Real Estate*	8.8%	7.7%	15.0%	6.0%	-14.0%
Real Assets	Infrastructure	8.7%	7.5%	16.0%	4.0%	-15.5%
Real Assets	Master Limited Partnerships	8.9%	7.6%	17.0%	6.0%	-16.7%
Real Assets	Timberland	7.5%	6.8%	12.3%	5.0%	-11.4%
Real Assets	Commodities	5.5%	4.4%	15.0%	0.0%	-17.2%
Alternative Investments*	Hedge Funds–Relative Value	5.3%	5.1%	5.8%	0.0%	-3.9%
Alternative Investments*	Hedge Funds–Macro	5.1%	4.9%	6.3%	0.0%	-4.9%
Alternative Investments*	Hedge Funds–Event Driven	5.6%	5.4%	7.0%	0.0%	-5.5%
Alternative Investments*	Hedge Funds–Equity Hedge	5.8%	5.5%	8.8%	0.0%	-7.9%
Alternative Investments*	Private Equity	13.2%	11.1%	22.0%	0.0%	-19.1%
Alternative Investments*	Private Debt	9.3%	8.1%	16.0%	6.8%	-14.9%

***Alternative investments are not suitable for all investors.** Any offer to purchase or sell a specific alternative investment product will be made by the product's official offering documents. **Investors could lose all or a substantial amount investing in these products. Please see end of report for important definitions and disclosures.**

Strategic and Tactical Asset Allocation

Introducing a new set of recommended strategic asset mixes

Recently, we expanded our set of asset mixes from seven objectives to nine. We renamed the objectives to reflect the thought process you might go through as an investor—for example:

1. What do you want from your portfolio? Growth? Income? A combination of the two?
2. How much risk are you willing to take to pursue your goal? Are you conservative, aggressive, or something in between?

We also performed the annual update to our recommended strategic asset allocation strategies. Our current investment clients will notice some modest changes in the recommended asset mix for their investment objective. Your current Investment Policy Statement (IPS) document continues to be valid until its three-year expiration from date of signature. The changes described here will begin to appear in account statements in November.

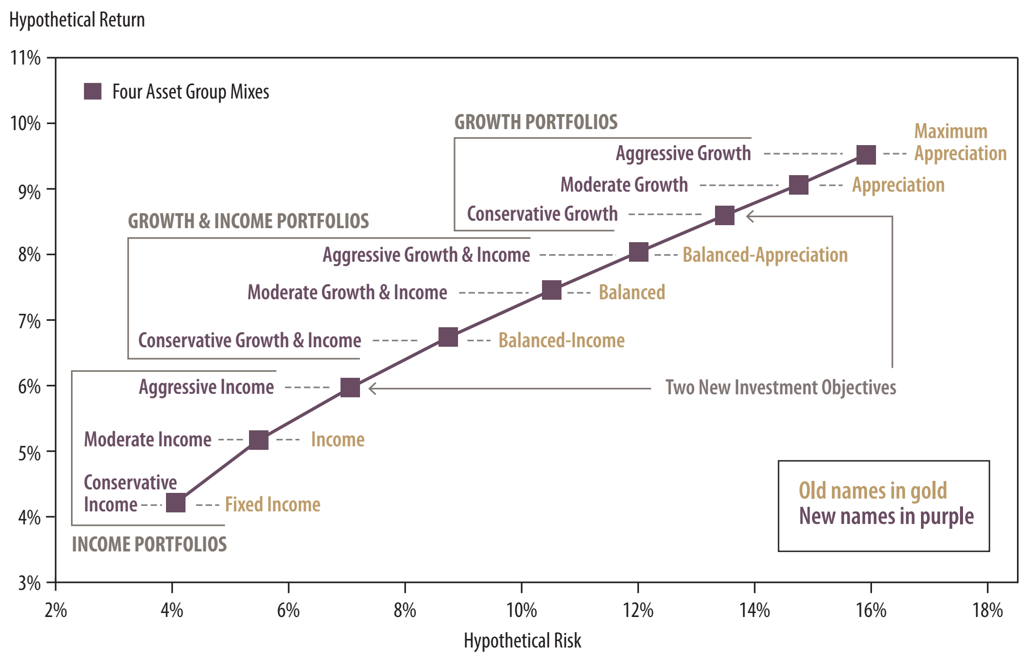
Client Goals	INCOME			GROWTH & INCOME			GROWTH		
Risk Tolerance	Conservative	Moderate	Aggressive	Conservative	Moderate	Aggressive	Conservative	Moderate	Aggressive

Efficient Frontier

An efficient frontier represents the theoretical set of diversified portfolios that maximizes return given a specific level of risk.

Chart is conceptual and is not meant to reflect any actual returns or represent any specific asset classifications.

Source: Wells Fargo Investment Institute, August 2016



Asset Classes

Some asset-class names are being changed slightly or added/removed completely for clarity and consistency. The table below shows asset class names that are being changed:

Old Name	New Name
Global Fixed Income	**Fixed Income**
U.S. Investment Grade Bonds	U.S. Taxable Investment Grade Fixed Income
Short Term Taxable Bonds	U.S. Short Term Taxable Fixed Income
Intermediate Taxable Bonds	U.S. Intermediate Term Taxable Fixed Income
Long Term Taxable Bonds	U.S. Long Term Taxable Fixed Income
Investment Grade Muni Bonds	Tax Exempt Investment Grade Fixed Income
Short Term Muni Bonds	Short Term Tax Exempt Fixed income
Intermediate Muni Bonds	Intermediate Term Tax Exempt Fixed Income
Long Term Muni Bonds	Long Term Tax Exempt Fixed Income
Developed Market Bonds	Developed Market Ex-U.S. Fixed Income
Emerging Market Bonds	Emerging Market Fixed Income
U.S. High Yield Bonds	High Yield Taxable Fixed Income
High Yield Muni Bonds	High Yield Tax Exempt Fixed Income
Global TIPS	Inflation-Linked Fixed Income

Old Name	New Name
Global Equities	**Equities**
U.S. Large Cap	U.S. Large Cap Equities
U.S. Mid Cap	U.S. Mid Cap Equities
U.S. Small Cap	U.S. Small Cap Equities
Developed Market Equities	Developed Market Ex-U.S. Equities
Developed Market Small Cap Equities	Developed Market Ex-U.S. Small Cap Equities
Global Real Assets	**Real Assets**
Global REITs	Public Real Estate
N/A	Infrastructure
MLPs	Master Limited Partnerships

Strategic and Tactical Asset Allocation

Four Asset Groups: Fixed Income, Equities, Real Assets, Alternative Investments

Strategic allocations as of 8/15/16; tactical allocations as of 1/3/17

		[Fixed Income] CONSERVATIVE			[Income] MODERATE			[New] AGGRESSIVE		
		Strategic	Tactical	Difference	Strategic	Tactical	Difference	Strategic	Tactical	Difference
INCOME	CASH ALTERNATIVES	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%
	TOTAL FIXED INCOME	77.0%	76.0%	-1.0%	62.0%	59.0%	-3.0%	53.0%	51.0%	-2.0%
	U.S. Taxable Investment Grade Fixed Income	60.0%	65.0%	5.0%	44.0%	47.0%	3.0%	32.0%	35.0%	3.0%
	U.S. Short Term Taxable	20.0%	20.0%	0.0%	12.0%	12.0%	0.0%	2.0%	2.0%	0.0%
	U.S. Intermediate Term Taxable	35.0%	40.0%	5.0%	25.0%	28.0%	3.0%	21.0%	24.0%	3.0%
	U.S. Long Term Taxable	5.0%	5.0%	0.0%	7.0%	7.0%	0.0%	9.0%	9.0%	0.0%
	High Yield Taxable Fixed Income	6.0%	4.0%	-2.0%	7.0%	5.0%	-2.0%	8.0%	6.0%	-2.0%
	Developed Market Ex-U.S. Fixed Income	8.0%	4.0%	-4.0%	6.0%	2.0%	-4.0%	5.0%	2.0%	-3.0%
	Emerging Market Fixed Income	3.0%	3.0%	0.0%	5.0%	5.0%	0.0%	8.0%	8.0%	0.0%
	TOTAL EQUITIES	6.0%	6.0%	0.0%	18.0%	18.0%	0.0%	25.0%	23.0%	-2.0%
	U.S. Large Cap Equities	2.0%	2.0%	0.0%	10.0%	10.0%	0.0%	11.0%	11.0%	0.0%
	U.S. Mid Cap Equities	2.0%	2.0%	0.0%	4.0%	4.0%	0.0%	6.0%	6.0%	0.0%
	U.S. Small Cap Equities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%	2.0%	-2.0%
	Developed Market Ex-U.S. Equities	2.0%	2.0%	0.0%	4.0%	4.0%	0.0%	4.0%	4.0%	0.0%
	Emerging Market Equities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	TOTAL REAL ASSETS	4.0%	4.0%	0.0%	5.0%	7.0%	2.0%	7.0%	9.0%	2.0%
	Public Real Estate	2.0%	2.0%	0.0%	2.0%	4.0%	2.0%	3.0%	5.0%	2.0%
	Private Real Estate*	2.0%	2.0%	0.0%	3.0%	3.0%	0.0%	4.0%	4.0%	0.0%
	Commodities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	TOTAL ALTERNATIVE INVESTMENTS*	10.0%	11.0%	1.0%	12.0%	13.0%	1.0%	12.0%	14.0%	2.0%
	Hedge Funds–Relative Value	4.0%	5.5%	1.5%	4.0%	5.5%	1.5%	4.0%	6.5%	2.5%
	Hedge Funds–Macro	3.0%	3.0%	0.0%	5.0%	5.0%	0.0%	5.0%	5.0%	0.0%
	Hedge Funds–Event Driven	3.0%	2.5%	-0.5%	3.0%	2.5%	-0.5%	3.0%	2.5%	-0.5%
	Hedge Funds–Equity Hedge	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Private Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

		[Balanced-Income]			[Balanced]			[Balanced-Appreciation]		
		Strategic	Tactical	Difference	Strategic	Tactical	Difference	Strategic	Tactical	Difference
GROWTH & INCOME	CASH ALTERNATIVES	3.0%	4.0%	1.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%
	TOTAL FIXED INCOME	41.0%	39.0%	-2.0%	31.0%	28.5%	-2.5%	23.0%	19.5%	-3.5%
	U.S. Taxable Investment Grade Fixed Income	27.0%	30.0%	3.0%	17.0%	19.5%	2.5%	9.0%	11.5%	2.5%
	U.S. Short Term Taxable	4.0%	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	U.S. Intermediate Term Taxable	16.0%	19.0%	3.0%	12.0%	14.5%	2.5%	4.0%	6.5%	2.5%
	U.S. Long Term Taxable	7.0%	7.0%	0.0%	5.0%	5.0%	0.0%	5.0%	5.0%	0.0%
	High Yield Taxable Fixed Income	6.0%	4.0%	-2.0%	6.0%	3.0%	-3.0%	6.0%	2.0%	-4.0%
	Developed Market Ex-U.S. Fixed Income	3.0%	0.0%	-3.0%	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%
	Emerging Market Fixed Income	5.0%	5.0%	0.0%	6.0%	6.0%	0.0%	6.0%	6.0%	0.0%
	TOTAL EQUITIES	32.0%	30.0%	-2.0%	40.0%	38.0%	-2.0%	48.0%	46.0%	-2.0%
	U.S. Large Cap Equities	14.0%	14.0%	0.0%	18.0%	18.0%	0.0%	22.0%	22.0%	0.0%
	U.S. Mid Cap Equities	6.0%	6.0%	0.0%	7.0%	7.0%	0.0%	8.0%	8.0%	0.0%
	U.S. Small Cap Equities	4.0%	2.0%	-2.0%	5.0%	3.0%	-2.0%	6.0%	4.0%	-2.0%
	Developed Market Ex-U.S. Equities	5.0%	5.0%	0.0%	6.0%	6.0%	0.0%	7.0%	7.0%	0.0%
	Emerging Market Equities	3.0%	3.0%	0.0%	4.0%	4.0%	0.0%	5.0%	5.0%	0.0%
	TOTAL REAL ASSETS	9.0%	10.0%	1.0%	10.0%	12.0%	2.0%	10.0%	13.0%	3.0%
	Public Real Estate	3.0%	6.0%	3.0%	3.0%	7.0%	4.0%	3.0%	8.0%	5.0%
	Private Real Estate*	4.0%	4.0%	0.0%	5.0%	5.0%	0.0%	5.0%	5.0%	0.0%
	Commodities	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%
	TOTAL ALTERNATIVE INVESTMENTS*	15.0%	17.0%	2.0%	16.0%	18.5%	2.5%	16.0%	18.5%	2.5%
	Hedge Funds–Relative Value	4.0%	6.5%	2.5%	3.0%	5.5%	2.5%	2.0%	4.5%	2.5%
	Hedge Funds–Macro	4.0%	4.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%
	Hedge Funds–Event Driven	2.0%	1.5%	-0.5%	2.0%	1.5%	-0.5%	2.0%	1.5%	-0.5%
	Hedge Funds–Equity Hedge	0.0%	0.0%	0.0%	2.0%	2.5%	0.5%	2.0%	2.5%	0.5%
	Private Equity	5.0%	5.0%	0.0%	6.0%	6.0%	0.0%	7.0%	7.0%	0.0%

See next page for Growth data and Portfolio Allocations across the Efficient Frontier, Strategic and Tactical.

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Evenweight includes a +/- 100 basis point band around strategic allocation

Strategic and Tactical Asset Allocation

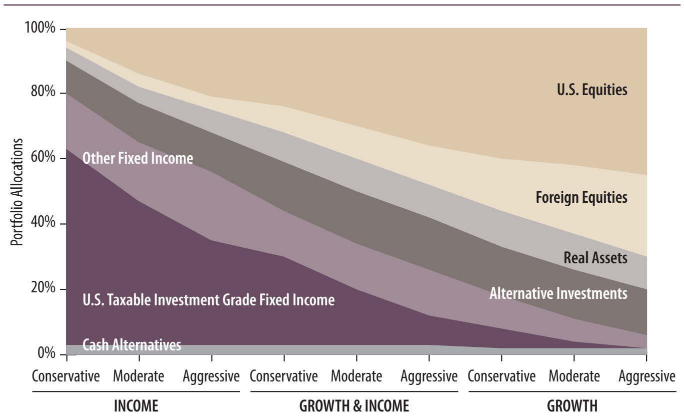
Four Asset Groups: Fixed Income, Equities, Real Assets, Alternative Investments (continued)

Strategic allocations as of 8/15/16; tactical allocations as of 1/3/17

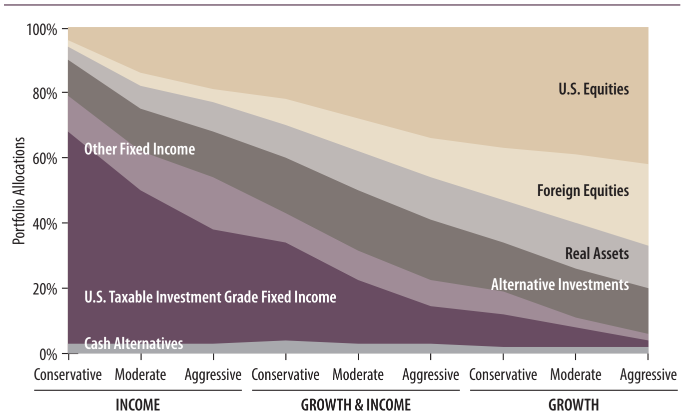
GROWTH	[New] CONSERVATIVE			[Appreciation] MODERATE			[Maximum Appreciation] AGGRESSIVE		
	Strategic	Tactical	Difference	Strategic	Tactical	Difference	Strategic	Tactical	Difference
CASH ALTERNATIVES	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%
TOTAL FIXED INCOME	16.0%	17.0%	1.0%	9.0%	9.0%	0.0%	4.0%	4.0%	0.0%
U.S. Taxable Investment Grade Fixed Income	6.0%	10.0%	4.0%	2.0%	6.0%	4.0%	0.0%	2.0%	2.0%
U.S. Short Term Taxable	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
U.S. Intermediate Term Taxable	4.0%	8.0%	4.0%	0.0%	4.0%	4.0%	0.0%	2.0%	2.0%
U.S. Long Term Taxable	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%	0.0%	0.0%	0.0%
High Yield Taxable Fixed Income	5.0%	2.0%	-3.0%	4.0%	0.0%	-4.0%	2.0%	0.0%	-2.0%
Developed Market Ex-U.S. Fixed Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Emerging Market Fixed Income	5.0%	5.0%	0.0%	3.0%	3.0%	0.0%	2.0%	2.0%	0.0%
TOTAL EQUITIES	56.0%	53.0%	-3.0%	63.0%	60.0%	-3.0%	70.0%	67.0%	-3.0%
U.S. Large Cap Equities	24.0%	24.0%	0.0%	24.0%	24.0%	0.0%	24.0%	24.0%	0.0%
U.S. Mid Cap Equities	9.0%	9.0%	0.0%	10.0%	10.0%	0.0%	12.0%	12.0%	0.0%
U.S. Small Cap Equities	7.0%	4.0%	-3.0%	8.0%	5.0%	-3.0%	9.0%	6.0%	-3.0%
Developed Market Ex-U.S. Equities	9.0%	9.0%	0.0%	11.0%	11.0%	0.0%	12.0%	12.0%	0.0%
Emerging Market Equities	7.0%	7.0%	0.0%	10.0%	10.0%	0.0%	13.0%	13.0%	0.0%
TOTAL REAL ASSETS	11.0%	13.0%	2.0%	11.0%	14.0%	3.0%	10.0%	13.0%	3.0%
Public Real Estate	3.0%	7.0%	4.0%	3.0%	8.0%	5.0%	3.0%	6.0%	3.0%
Private Real Estate*	6.0%	6.0%	0.0%	6.0%	6.0%	0.0%	7.0%	7.0%	0.0%
Commodities	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%	0.0%	0.0%	0.0%
TOTAL ALTERNATIVE INVESTMENTS*	15.0%	15.0%	0.0%	15.0%	15.0%	0.0%	14.0%	14.0%	0.0%
Hedge Funds–Relative Value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Hedge Funds–Macro	3.0%	3.0%	0.0%	2.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Hedge Funds–Event Driven	2.0%	1.5%	-0.5%	2.0%	1.5%	-0.5%	2.0%	1.5%	-0.5%
Hedge Funds–Equity Hedge	2.0%	2.5%	0.5%	2.0%	2.5%	0.5%	2.0%	2.5%	0.5%
Private Equity	8.0%	8.0%	0.0%	9.0%	9.0%	0.0%	10.0%	10.0%	0.0%

These allocations span the set of investments available to investors, utilizing broad diversification to help manage portfolio risk. Special issues such as liquidity, cash flow, and taxability would be taken into consideration in the choice of investment vehicles for each asset class. Depending on their tax bracket and on market conditions, investors may elect taxable or municipal bonds to implement their fixed income allocation. The tactical asset allocation overweights and underweights are designed to provide guidance on shorter-term (6–18 months) weightings in the portfolio.

Portfolio Allocations across the Efficient Frontier–**Strategic**



Portfolio Allocations across the Efficient Frontier–**Tactical**



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Evenweight includes a +/- 100 basis point band around strategic allocation

Strategic Asset Allocation

Efficient Frontiers

An efficient frontier represents the theoretical set of diversified portfolios that maximizes return given a specific level of risk. With our capital market assumptions, we are able to use the asset classes to create proprietary asset allocation portfolios that are prudent in that diversification is used to reduce performance risk associated with concentrated investments. They are efficient in that the level of hypothetical risk is appropriate for the desired, hypothetical return. There are two efficient frontiers: one represents our full recommended asset allocation, while the other is restricted to a traditional stock/bond allocation. The asset allocation portfolios fall along the efficient frontier, allowing investors opportunities with varying levels of risk.

Four Asset Groups vs. Classic Stock-and-Bond Portfolio

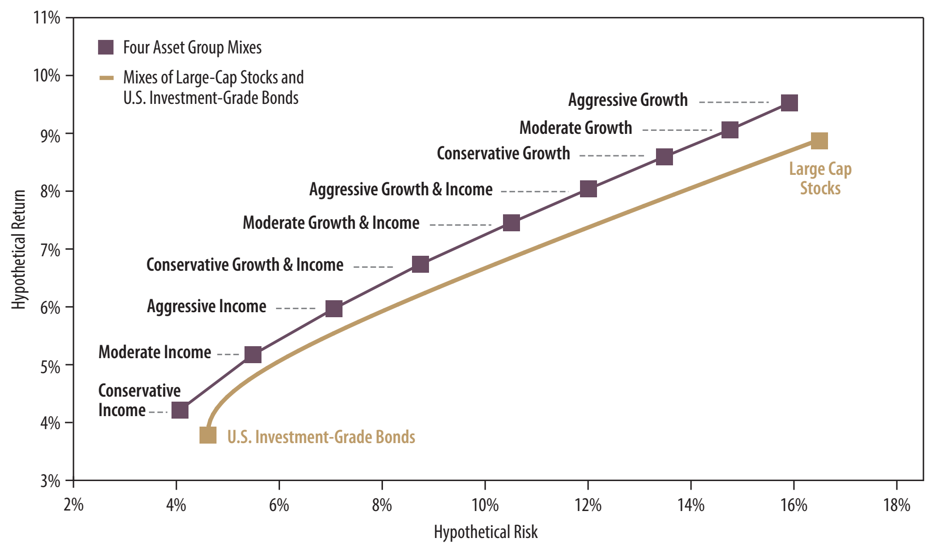

Chart is conceptual and is not meant to reflect any actual returns or represent any specific asset classifications.
Source: Wells Fargo Investment Institute, August 2016

Hypothetical Portfolio Statistics

For Strategic Allocation Mixes (pages 11-12) based on Capital Market Assumptions (page 9)

	INCOME			GROWTH & INCOME			GROWTH		
	Conservative	Moderate	Aggressive	Conservative	Moderate	Aggressive	Conservative	Moderate	Aggressive
Geometric Expected Return	4.1%	5.0%	5.7%	6.4%	6.9%	7.4%	7.8%	8.1%	8.4%
Arithmetic Expected Return	4.2%	5.2%	6.0%	6.7%	7.5%	8.0%	8.6%	9.1%	9.5%
Standard Deviation	4.1%	5.5%	7.1%	8.7%	10.5%	12.0%	13.5%	14.8%	15.9%
Yield	3.0%	3.0%	3.1%	2.7%	2.7%	2.6%	2.6%	2.4%	2.4%
Downside Risk	-2.3%	-3.6%	-5.2%	-7.0%	-8.9%	-10.5%	-12.1%	-13.4%	-14.6%

Investment Objectives Definitions

INCOME

Income portfolios emphasize current income with minimal consideration for capital appreciation and usually have less exposure to more volatile growth assets but can still experience losses.

Conservative Income investors generally assume lower risk, but may still experience losses or have lower expected income returns.

Moderate Income investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest income returns.

Aggressive Income investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.

GROWTH & INCOME

Growth & Income portfolios emphasize a blend of current income and capital appreciation and usually have some exposure to more volatile growth assets.

Conservative Growth & Income investors generally assume a lower amount of risk, but may still experience losses or have lower expected returns.

Moderate Growth & Income investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest returns.

Aggressive Growth & Income investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.

GROWTH

Growth portfolios emphasize capital appreciation with minimal consideration for current income and usually have significant exposure to more volatile growth assets.

Conservative Growth investors generally assume a lower amount of risk, but may still experience increased losses or have lower expected growth returns.

Moderate Growth investors are willing to accept a modest level of risk that may result in significant losses in exchange for the potential to receive higher returns.

Aggressive Growth investors seek a higher level of returns and are willing to accept a higher level of risk that may result in more significant losses.

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Tactical Asset Allocation

Recommended Tactical Tilts

Increased U.S. Long Term Taxable Fixed Income to Evenweight.
Reduced U.S. Large Cap Equities to Evenweight.
Increased Public Real Estate to Overweight.
Reduced Commodities and High Yield Taxable Fixed Income to Underweight.

The strategic (evenweight) asset allocations are based on long-term strategies. However, capital markets tend to move in cycles, and there may be short-term opportunities to enhance the risk/return relationship within a portfolio by temporarily adjusting the allocations. The tactical asset allocation overweights and underweights are designed to provide guidance on shorter-term (6–18 months) weightings in the portfolio. The minimum position of any asset class is zero, meaning that no short selling is permitted. The maximum position of all asset classes together is 100 percent, meaning that no leverage is permitted. The actual extent of overweights and underweights is a judgment call. It should be enough to make a difference without crowding out other assets or creating a vacuum. Also, all the tactical recommendations have to be considered together. It would not be mathematically possible to underweight two asset groups while maintaining an evenweight in the other two. Adjustments must be made to bring all the broad asset classes into a proper relationship. These are guidelines to be used prudently for investors with temperaments that agree with a more aggressive, tactical investment style.

Additional Asset Class Guidance

Consider long/short equity strategies: These strategies provide diversification in an equity portfolio by utilizing both long and short exposures to the asset class. While they do provide diversification, investors should expect higher tracking error to traditional benchmarks from these strategies. Prudent use through controlled allocations is recommended.

Underweight	Evenweight	Overweight
	Cash & Fixed Income	
High Yield Taxable Fixed Income** Developed Market Ex.-U.S. Fixed Income	Cash Alternatives U.S. Short Term Taxable Fixed Income U.S. Long Term Taxable Fixed Income** Emerging Market Fixed Income	U.S. Taxable Investment Grade Fixed Income U.S. Intermediate Term Taxable Fixed Income
	Equities	
U.S. Small Cap Equities	U.S. Large Cap Equities** U.S. Mid Cap Equities Developed Market Ex.-U.S. Equities Emerging Market Equities	
	Real Assets	
Commodities**	Private Real Estate*	Public Real Estate**
	Alternative Investments*	
Hedge Funds–Event-Driven*	Private Equity* Private Debt* Hedge Funds–Macro*	Hedge Funds–Relative Value* Hedge Funds–Equity Hedge*
Underweight	Evenweight	Overweight

*Alternative investments are not suitable for all investors. Any offer to purchase or sell a specific alternative investment product will be made by the product's official offering documents. Investors could lose all or a substantial amount investing in these products. Please see end of report for important definitions and disclosures.

**Changed on January 3, 2017.

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Tactical Asset Allocation

Tactical Recommendations Summary

	Asset Class	Weight	Rationale and Further Detail
Fixed Income	**U.S. Taxable Investment Grade Fixed Income**	Overweight	While yields are at low levels and have moved higher in recent weeks, domestic IG bond yields remain attractive on a global scale. Our outlook for continued U.S. economic expansion is generally supportive.
Fixed Income	**U.S. Short Term Taxable**	Evenweight	We expect the Fed to raise rates at a slow pace and continue to expect minimal yield opportunities in short-term bonds. Short-term, fixed-income securities are a defensive investment—which may help reduce fixed-income holdings' exposure to an unexpected rise in yields/decline in prices due to a stronger-than-expected economic recovery or unanticipated inflation.
Fixed Income	**U.S. Intermediate Term Taxable**	Overweight	We believe that the yield curve remains attractive through the intermediate bond area. As noted, we expect the Fed to keep rates low through 2017. We believe investors should consider owning more intermediate maturities given the available yield pickup.
Fixed Income	**U.S. Long Term Taxable**	Evenweight (was Underweight)	Longer-term rates have adjusted meaningfully higher in recent weeks on the expectation of higher fiscal spending, stronger growth and an increase in inflation. We believe that much of this potential has been absorbed and is reflected in current yield levels. Uncertainty around implementation presents this asset class with a wide range of potential outcomes. An evenweight position reflects our more balanced perception of the risks to yields going forward.
Fixed Income	**High Yield Taxable Fixed Income**	Underweight (was Evenweight)	We believe that the high-yield (HY) sector is overvalued, as spreads have declined below historical averages. Investors should consider moving up in credit quality within HY. It also is important to maintain broad HY diversification given potential liquidity issues in the sector.
Fixed Income	**Developed Market Ex-U.S. Fixed Income**	Underweight	Ultra-low sovereign yields should remain so given a sluggish global recovery and central-bank support. We have a neutral tactical view on the U.S. dollar and do not recommend currency hedging any portion of developed-market bond holdings. See page 19 of this report for additional information.
Fixed Income	**Emerging Market Fixed Income**	Evenweight	Higher yields and spreads in U.S.-dollar-denominated sectors may offer the potential for more stable returns, but local-currency bonds are expected to be more volatile. A 100 percent dollar-denominated strategy should be considered.
Equities	**U.S. Large Cap Equities**	Evenweight (was Overweight)	We believe that investors have been looking beyond poor first-half earnings and expecting quarter-to-quarter improvement in earnings growth. Investors also have been focused on further improvement in 2017. Full-year 2016 earnings likely will be largely in line with 2015 results. We see 6 to 7 percent earnings growth in 2017.
Equities	**U.S. Mid Cap Equities**	Evenweight	We still modestly favor large caps over mid caps looking ahead. It is typical for mid caps to underperform late in a cycle. We continue to look for opportunities.
Equities	**U.S. Small Cap Equities**	Underweight	We believe that modest U.S. economic growth in the coming year may make it unlikely that small-cap companies will meet the aggressive consensus earnings-growth estimates. This is typical as we move into the latter stages of the cycle. We believe that valuations are high vs. fundamentals.
Equities	**Developed Market Ex.-U.S. Equities**	Evenweight	Our fundamental outlook is more balanced—as weak trade and less U.S. dollar strength than we initially expected has resulted in a more subdued earnings outlook for some of the world's largest economies.
Equities	**Emerging Market Equities**	Evenweight	Emerging-market growth should outpace developed-market growth. However, selectivity is important, as economic and political challenges remain. Earnings growth for many commodity-centric markets remains a challenge.
Real Assets	**Commodities**	Underweight (was Evenweight)	We believe that commodities remain in a bear market and should enter a long-term consolidation period as supply and demand balance.
Real Assets	**Public Real Estate**	Overweight (was Evenweight)	Fundamentals for U.S. equity REITs softened in 2016, but are not weak. We do not expect long-term yields to rise much more, if at all, in 2017. We believe that Public Real Estate may be positioned to outperform other asset classes in 2017. Further, recent underperformance has provided an opportunity to add exposure. Non-U.S.-listed real estate has generally been less attractive, given the higher degree of economic uncertainty in many overseas markets.
Real Assets	**Private Real Estate***	Evenweight	We prefer Opportunistic real estate strategies, particularly in Europe, but also ones with an increased focus on Asia. Going forward, we expect that income will represent a larger portion of total return for core real estate than it has for the past five years.
Alternative Investments*	**Hedge Funds–Relative Value***	Overweight	Structured Credit fundamentals remain supportive, although we are cognizant that trends in property prices and delinquencies have softened marginally. We view the risk-reward tradeoff within Structured Credit as more attractive than traditional fixed income. We believe that investors can benefit from the high cash-flow potential of this strategy.
Alternative Investments*	**Hedge Funds–Macro***	Evenweight	The strategy's historically low correlation to risk assets should benefit investors in the event of a prolonged correction, when it can help provide downside protection and potentially positive performance. However, choppy trading conditions might limit the effectiveness of the Systematic Macro strategy when established trends abruptly reverse.
Alternative Investments*	**Hedge Funds–Event Driven***	Underweight	Deal volume remains supportive. This should present trading opportunities for Merger Arbitrage managers. Distressed Credit managers have benefited from tightening credit spreads, with many realizing gains and raising cash in anticipation of better opportunities in coming months.
Alternative Investments*	**Hedge Funds–Equity Hedge***	Overweight	We believe this is a stock picker's environment; however, low-net global equity exposure is preferred over more directional exposure. Sector dispersion has increased following the election, resulting in an improved environment for gains on both the long and short sides.
Alternative Investments*	**Private Equity* Private Debt***	Evenweight	We are most constructive on international Distressed/Special Situation strategies, particularly in Europe, where opportunities should continue to unfold. We believe that large-cap buyouts will be challenged due to high valuations, but we remain constructive on small- and mid-cap buyouts.

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Tactical Asset Allocation

Fixed Income Sector Strategy: Domestic Investment-Grade Securities

Sector Recommendations

	Sector	Benchmark Weight	Recommended Weight	Tactical Recommendation
–	U.S. Government	40%	40%	Evenweight
–	Credit	30%	30%	Evenweight
–	Securitized	30%	30%	Evenweight
	Total	100%	100%	
▲	Duration			Evenweight

Source: Wells Fargo Investment Institute, 11/30/16. See end of report for important definitions and disclosures.

Sector Recommendations

	Taxable Sectors	Guidance
–	Treasury Securities	Neutral
–	Agencies	Neutral
–	Inflation-Linked Fixed Income	Favorable
–	Corporate Securities	Neutral
–	Preferred Securities	Neutral
–	Residential MBS	Neutral
–	Commercial MBS	Neutral
–	Asset Backed Securities	Neutral
	Tax-Exempt Sectors	**Guidance**
–	Taxable Municipal	Neutral
–	State and Local General Obligation	Neutral
–	Essential Service Revenue	Favorable
–	Pre-Refunded	Neutral

Source: Wells Fargo Investment Institute, 11/30/16

U.S. Government (Evenweight): Treasury yields have risen since mid-July as inflation readings crept higher and investors prepared for a Fed rate hike. We believe that this rise has offered a more attractive entry point; we are now evenweight. We recommend that investors hold government allocations for diversification and liquidity. Government securities offer a hedge in the event of unexpected international events or an economic slowdown and are generally the beneficiary of risk-off market events.

Investment-Grade Credit (Evenweight): High-quality corporate debt can allow portfolios to generate yield through exposure to high-grade credits. We believe that high-grade corporate debt offers better liquidity than most other credit holdings. Yet, this sector appears to be fully valued. We continue to favor higher quality in the current market. We may see an increase in issuance as merger and acquisition activity has increased, and companies are looking to issue debt before additional Fed rate increases.

Total Sector Returns

Sector	1 Month	Year-to-Date	12 Months
U.S. Government	-2.6%	1.2%	1.0%
Credit	-2.7%	5.0%	4.2%
Securitized	-1.7%	1.7%	1.6%
U.S. Municipal Bonds	-3.7%	-0.9%	-0.2%

Source: FactSet, 11/30/16

Investment-Grade Securitized (Evenweight): Yield is an important component of an investor's sector selection. The securitized sector offers investors income opportunities that cannot be found in other highly-rated, fixed-income securities. This sector adds diversification to a fixed-income portfolio and generally does not move in lockstep with other sectors. We believe that the imbedded prepayment call options available in the securitized sector are attractive; we would focus on the middle of the coupon stack. Yet investors should be aware that increases in interest rates could lead to an extension of duration in the sector (the security's expected maturity lengthening due to fewer prepayments as rates rise).

Duration (Evenweight, was Underweight): Duration positioning is critical for fixed-income investors. We recommend that investors position fixed-income holdings at benchmark duration (evenweight). Investors should avoid moving too short and being left with little yield/income generation in their portfolios. Conversely, investors that move too long could find their portfolios to be overly rate sensitive in what we expect will be a volatile year in fixed income. An evenweight duration position will allow investors to be better positioned to capitalize upon rate opportunities that may develop in 2017.

U.S. Municipal Bonds: As the new administration became clear in November, concerns about added fiscal stimulus and prospects for a reduced individual tax rate weighed heavily on municipal securities. Weekly municipal-fund outflows exceeded inflows for the first time in more than a year. While we expect that a lower individual tax rate would have a negative market impact on municipals, we remain cautious over both the magnitude and timing of this potential change. Additionally, tax-policy changes that could have a larger negative market impact, such as reevaluating the municipal exemption or capping municipal benefits, appear less likely than lower individual tax rates. Finally, given the recent weakness, favorable municipal/Treasury yield ratios offer support for municipals going forward. While we expect recent yield volatility to remain through year-end, we view this as a potential buying opportunity for long-term investors.

For more information, please request our *Monthly Fixed Income Guidance* report.

Tactical Asset Allocation

Domestic Equity Sector Strategy

Sector Recommendations

	Sector	S&P 500 Index Weight*	Recommended Weight	Tactical Recommendation
–	Consumer Discretionary	12.0%	14.9%	Overweight
–	Consumer Staples	9.3%	5.5%	Underweight
–	Energy	7.6%	4.0%	Underweight
–	Financials	14.8%	16.4%	Overweight
–	Health Care	13.7%	17.2%	Overweight
–	Industrials	10.3%	11.6%	Overweight
▼	Information Technology	20.8%	21.8%	Evenweight
–	Materials	2.8%	3.0%	Evenweight
–	Real Estate	2.9%	3.1%	Evenweight
–	Telecom Services	2.7%	2.5%	Evenweight
–	Utilities	3.1%	0.0%	Underweight
	Total	100.0%	100.0%	

Sources: Bloomberg, Wells Fargo Investment Institute, 1/3/17.
Recommended weightings as of 1/3/17.
*Sector weightings may not add to 100% due to rounding.

Total Returns: S&P 500 Index Groups

Sector	1 Month	Year-to-Date	12 Months
Consumer Discretionary	4.7%	6.0%	3.0%
Consumer Staples	-4.3%	2.1%	5.1%
Energy	8.4%	25.0%	12.6%
Financials	13.9%	18.2%	15.7%
Health Care	2.0%	-3.4%	-1.7%
Industrials	8.8%	18.3%	15.9%
Information Technology	-0.3%	12.1%	9.5%
Materials	6.9%	16.5%	11.7%
Real Estate	-3.1%	-0.9%	1.2%
Telecom Services	3.6%	14.2%	16.2%
Utilities	-5.4%	10.8%	13.2%
S&P 500 Index	3.7%	9.8%	8.1%

Source: FactSet, 11/30/16
Past performance is no guarantee of future results.

Consumer Discretionary (Overweight): We have long favored this sector due to its reliance on improving labor trends, consumer confidence, and consumer spending. Looking ahead, we continue to see improvement in this area and expect outperformance, relative to the S&P 500 Index, into the middle of next year.

Consumer Staples (Underweight): Consumer Staples are seeing headwinds from a stronger dollar and weaker economies abroad. Unit volume growth has been modest. This high-dividend defensive sector attracted investors as bonds rallied and yields fell. Higher yields have hurt performance. Valuations remain elevated, relative to history.

Energy (Underweight): In our opinion, Energy-sector valuations are high, relative to our outlook for oil and natural-gas prices. The new administration is proposing bringing America closer to being "energy independent." That might be good for energy-related infrastructure spending, but would likely depress energy prices as more supply is brought to the market.

Financials (Overweight): We recently moved to an overweight in Financials as we further underweighted the Consumer Staples sector. A steeper yield curve, along with modestly higher inflation and economic growth, should help this sector. The time frame for this tactical tilt is about 12 to 18 months.

Health Care (Overweight): We believe that relative valuations continue to look attractive at this point. In addition, the new administration likely will focus far less on drug-price controls than would have been the case if Secretary Clinton had won the election.

Industrials (Overweight): We have been overweight on Industrials in anticipation of better global economic performance in this portion of the cycle. This sector has outperformed the S&P 500 Index since July 2015. In addition, new infrastructure spending, which has bipartisan support, should be a positive for this sector in the coming years.

Information Technology (Evenweight, was Overweight): Our outlook calls for increased levels of technology business-capital spending over the next 12 to 18 months. Fears of trade friction and potential immigration issues for skilled labor have hurt relative performance since the election. Merger and acquisition (M&A) activity should continue at a good pace.

Materials (Evenweight): This sector has experienced a meaningful bounce higher this year, particularly since the election. We see the slow-growth global economy as a headwind, but anticipated stabilization has helped this sector in 2016. We remain evenweight for now.

Real Estate (Evenweight): The Real Estate sector was added by Standard & Poor's as the 11th sector in September. Higher bond yields have hurt this sector since the election. We are keeping a close eye on Real Estate, as valuations have deteriorated vs. our fundamental outlook.

Telecom Services (Evenweight): We recently moved this sector to an evenweight position from the previous underweight recommendation. We believe that valuation had reached more attractive levels as relative performance deteriorated in October.

Utilities (Underweight): Since the election, Utilities have been the worst-performing sector. Looking ahead, earnings growth is expected to be in the low-to-mid single digits. The hunt for yield has been fading since mid-February. We continue to expect that this sector will underperform.

Growth vs. Value (Growth: Favorable, Value: Unfavorable): As Growth valuations are higher, based on the muted-growth, modest-inflation environment we see ahead, we foresee outperformance from Growth (over Value). We believe that Growth companies generally will grow revenue and earnings at rates exceeding that of the U.S. economy. Since the election, Value has outperformed, but we do not see this trend continuing.

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Tactical Asset Allocation

International Equity Market Strategy

Developed Market Ex.-U.S. Equities

During the second quarter of 2016, we recommended trimming Europe and adding to Pacific equity exposure, bringing both regions to neutral within our international developed-market equity allocations. This recommendation reflected sharp divergence in underlying fundamentals in the UK (a large weight in the benchmark index) vs. Europe. The UK has led Europe lower in our fundamental, technical, and market internals work. Similar measures for the Pacific region have stabilized in November, ranking slightly ahead of Europe but continuing to favor neutral exposure for both regions.

Emerging Market Equities

At a broad asset-class level, we are evenweight on emerging-market equities. Nonetheless, we recommend that investors seek out selective opportunities within the asset class. We also suggest that investors maintain a negative bias toward Latin American, Eastern European, Middle East and African (EMEA) equities, while favoring Emerging Asia. We believe that weak economic fundamentals—coupled with stretched equity-market valuations—are likely to contribute to a market reversal in Latin America and EMEA following this year's market rallies. Our favorable tilt toward Emerging Asia is supported by improving market and economic fundamentals in the region.

Cross-Regional Trends

The trend of lower global interest rates continues to favor countries with relatively high external debt. These countries are concentrated in Europe. In addition, low commodity prices continue to favor commodity importers, a group that features heavy representation from Europe. The least favorable economic trends remain concentrated among commodity exporters. Most industrial and agricultural commodity prices remain below their 2014 highs, a development that is most negative for Latin America, South Africa, and Russia. This explains most of the slow economic and earnings growth—and supports our unfavorable view of those regions.

International Equity Guidance by Regions

Region	Principal Members	Regional Guidance	Benchmark Weight*
Developed Market Ex.-U.S. Equities			
Europe	Denmark, France, Germany, Great Britain, Italy, Netherlands, Spain, Sweden, Switzerland	Neutral	61%
Pacific	Australia, Hong Kong, Japan, Singapore	Neutral	39%
		Total	**100%**
Emerging Market Equities			
Emerging Asia	China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand	**Favorable**	74%
Emerging Europe, Middle East and Africa	Poland, Russia, South Africa, Turkey	Unfavorable	13%
Latin America	Brazil, Chile, Mexico	Unfavorable	13%
		Total	**100%**

*Benchmarks are MSCI EAFE for DM and MSCI Emerging Markets for EM.
Source: Wells Fargo Investment Institute, 11/30/16

The table above provides general guidance on what to overweight or underweight for investors who want to take direct regional exposure based on our international perspectives. Following the categories in our strategic allocations, the recommendations are separated into DM and EM equities. For additional perspective, please note that our current tactical advice is to hold DMs evenweight relative to their long-term target and underweight the EM allocation. We provide additional context for this regional tactical positioning in our International Briefing reports.

Currency Hedging Guidance

The U.S. Dollar vs. Developed-Market Currencies

Market Observations

The main impact of the U.S. election was a strong rise in the U.S. dollar, with the dollar index (DXY) rising from below 98.00 to 101.50 by month-end—an increase of more than 3.5 percent. The dollar has been strong partly because improving U.S. economic data and the new administration's expected policy mix are perceived to raise domestic inflation. This perception is already boosting U.S. bond yields relative to those of other developed markets and increasing expectations of Fed rate increases. In Europe, the U.S. election outcome raised the possibility of anti-establishment forces gaining ground in a number of votes between December and mid-2017. This undercut the euro, which fell some 3.5 percent, testing long-standing support levels at 1.05 dollars per euro. Although the Japanese yen is a smaller weight than the euro in the DXY, the yen lost 8.4 percent vs. the dollar in November to near 115 yen per dollar. The rise in U.S. Treasury yields, combined with the Bank of Japan's policy to keep 10-year Japanese Government Bond yields near zero, widened the dollar-yen rate differential.

Wells Fargo Investment Institute Perspective

Although the DXY rose sharply in November, it remains in the middle of the range implied by our year-end 2017 forecasts for the euro and yen (see table below). The euro may continue to slip lower if political events, such as the Dutch and French elections in 2017, bolster anti-EU and anti-euro sentiment. The yen outlook remains uncertain, and we expect a wide range of movement in 2017—not necessarily in the direction of further weakness. For example, the yen may not weaken much further if a managed-currency policy (i.e., public dissatisfaction with excessive dollar strength) replaces outright trade restrictions under the new administration. And the yen has the potential to strengthen on bouts of risk aversion if markets do not continue their buoyant mood throughout 2017.

Our year-end 2017 currency forecasts reflect a neutral outlook for the dollar, with weakness foreseen in the euro and pound offset by a stronger yen. Our euro forecast range is 1.00–1.08 dollars per euro, and our yen forecast range is 95–105 yen per dollar.

Year-End 2017 Currency Targets

	November 30, 2016	Year-end 2017 Forecasts	Expected Return vs. U.S. Dollar
Dollars per euro	$1.06	$1.00-1.08	-1.8%
Yen per dollar	¥114.5	¥95-105	14.5%

Source: Wells Fargo Investment Institute, 11/30/16

The U.S. Dollar vs. Emerging-Market Currencies

Market Observations

In aggregate, emerging-market (EM) currencies were hit hard in November by fears about trade and immigration policies following the U.S. election. The Mexican peso fell by more than eight percent, as it may be impacted significantly by any protectionist measures taken by the new administration. But the Turkish lira dropped the most, down by 10 percent, as geopolitical tensions and domestic political concerns are worrying investors. Overall, indices of EM currencies declined by approximately four percent in November. Some currencies, notably the Russian ruble, were little changed. The ruble was seen as a beneficiary of the new administration's foreign-policy stance, and of attempts to raise oil prices that culminated in the OPEC production-cut agreement at month-end.

Wells Fargo Investment Institute Perspective

We have a neutral outlook for the dollar against EM currencies; however, since the election, we believe that risks are tilted more toward a stronger dollar. Valuation provides some EM-currency support after the heavy declines of the past five years, and higher EM interest rates should continue to attract inflows. It is not yet clear that the adverse impact of any change in the U.S. policy mix will be enough to offset the modest recovery in EM growth that we expect in 2017. Downside risks for EM currencies are increased by the possibility of a less-open U.S. trade policy in coming years. Positive sentiment should remain constrained by the challenges of unbalanced growth models and institutional and governance inadequacies, leading to high levels of political risk in certain markets. Rising U.S. rates and range-bound oil prices also should limit the potential upside.

Currency Hedging

Based on our views on the direction of the dollar, we provide our currency-hedging guidance in the matrix below. For DM fixed income, although longer-term fundamentals still favor the dollar, our tactical outlook remains neutral. In line with this neutral currency view, we do not recommend hedging any portion of DM bond holdings.

For EM fixed income, the strategic benchmark consists exclusively of dollar-denominated sovereign EM bonds—so our evenweight recommendation for this debt class and our still favorable view on the dollar vs. EM local currencies suggest that hedging is unnecessary.

Hedging Matrix

Asset Class	Strategic Benchmark	Currency Advice
Developed Market Ex-U.S. Fixed Income	Local currency	No hedge
Developed Market Ex-U.S. Equities	Local currency	No hedge
Emerging Market Fixed Income	U.S. dollar	No hedge
Emerging Market Equities	Local currency	No hedge

Source: Wells Fargo Investment Institute, 11/30/16

The table above provides guidance for investors who want and are able to hedge against currency losses, or to take advantage of the dollar's move in either direction. Please note that implementation may vary according to the hedging instruments available to investors.

We do not favor hedging currency risk for equities at this time. The hurdle to hedging currency risk is higher for equities than for bonds because, in equity markets, currency movements have had a smaller influence on total return than for fixed income. Further, the cost and complexity of currency hedging for equities may be greater. It is important to consider that many actively-managed mutual funds already may incorporate an element of currency hedging. In addition, the cost of hedging against losses from EM currencies is far higher than for those of DMs, and the availability of efficient hedging instruments is limited.

Alternative Investment Strategies Outlook

Our Quantitative Outlook is based on a collection of multi-market factors that we believe to be important drivers of performance for the hedge fund strategies shown. The direction and persistency of trends within these factors determine our quantitative outlook. Our Qualitative Outlook integrates top-down and bottom-up views on the opportunity set for each strategy, adding observations from portfolio managers including changes in portfolio composition, exposure, and leverage. The Quantitative and Qualitative Outlooks are combined to produce our Overall Outlook.

Highest-Conviction Strategies
Long/Short Credit Structured Credit Discretionary Macro Directional/Low Net Equity Hedge Private Debt

Alternative Investment Strategies Outlook*

Hedge Fund Strategies	HFRI YTD Performance (Through 11/30/16)	2016 Outlook			Change in Outlook Since Prior Month
		Quantitative Outlook	Qualitative Outlook	Overall Outlook	
Relative Value	6.4%	Favorable	Neutral	Overweight	No Change
Arbitrage	5.9%	Favorable	Neutral	Evenweight	No Change
Long/Short Credit	9.3%	Favorable	Neutral	**Overweight**	No Change
Structured Credit/Asset-Backed	4.7%	Favorable	Neutral	**Overweight**	No Change
Macro	0.3%	Neutral	Neutral	Evenweight	No Change
Systematic	-2.1%	Neutral	Unfavorable	Evenweight	No Change
Discretionary	-1.8%	Favorable	Neutral	**Overweight**	No Change
Event Driven	9.4%	Neutral	Neutral	Underweight	No Change
Activist	8.8%	Unfavorable	Neutral	Underweight	No Change
Distressed Credit	12.7%	Neutral	Neutral	Evenweight	No Change
Merger Arbitrage	2.9%	Neutral	Neutral	Evenweight	No Change
Equity Hedge	4.8%	Favorable	Favorable	**Overweight**	No Change
Directional	4.0%	Unfavorable	Neutral	**Overweight**	No Change
Equity Market Neutral	1.8%	Unfavorable	Neutral	Evenweight	No Change

*Alternative investments are not suitable for all investors. Any offer to purchase or sell a specific alternative investment product will be made by the product's official offering documents. Investors could lose all or a substantial amount investing in these products. Please see end of report for important definitions and disclosures.

Notes on performance numbers

Hedge Fund Research, Inc. (HFR) maintains two sets of indices to report hedge fund performance. This report generally uses the HFRI series, which covers a select subset of the manager universe.

Relative Value strategy performance is represented by the HFRI Relative Value Arbitrage Index. Arbitrage strategy performance is represented by the HFRI Relative Value: Fixed Income—Sovereign Index. Long/short credit strategy performance is represented by the HFRI Relative Value: Fixed Income—Corporate Index. Structured Credit/Asset Backed strategy performance is represented by the HFRI Relative Value: Fixed Income—Asset Backed Index.

Macro strategy performance is represented by the HFRI Macro/CTA Index. Systematic strategy performance is represented by the HFRI Macro: Systematic Diversified CTA Index. Discretionary strategy performance is represented by the HFRI Macro: Discretionary Thematic Index.

Event Driven strategy performance is represented by the HFRI Event Driven Index. Activist strategy performance is represented by the HFRI Event Driven: Activist Index. Distressed Credit strategy performance is represented by the HFRI Event Driven: Distressed Restructuring Index. Merger Arbitrage strategy performance is represented by the HFRI Event Driven: Merger Arbitrage Index.

Equity Hedge strategy performance is represented by the HFRI Equity Hedge Index. Directional Equity strategy performance is represented by the HFRX Equity Hedge: Multi-Strategy Index. Equity-Market Neutral strategy performance is represented by the HFRI Equity Hedge: Equity Market Neutral Index.

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Disclosures

Risk Considerations

Past performance does not indicate future results. The value or income associated with a security or an investment may fluctuate. There is always the potential for loss as well as gain. Investments discussed in this report may be unsuitable for some investors depending on their specific investment objectives and financial position.

Asset allocation and diversification are investment methods used to manage risk. They do not assure or guarantee better performance and cannot eliminate the risk of investment losses. Your individual allocation may be different than the strategic long-term allocation above due to your unique individual circumstances, but is targeted to be in the allocation ranges detailed. The asset allocation reflected above may fluctuate based on asset values, portfolio decisions, and account needs.

Investing in **commodities** is not suitable for all investors. Exposure to the commodities markets may subject an investment to greater share price volatility than an investment in traditional equity or debt securities. Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity. Products that invest in commodities may employ more complex strategies which may expose investors to additional risks.

Convertible securities are subject to the same interest rate, price and credit risks as regular debt securities. Prices tend to be inversely affected by changes in interest rates. In addition, a convertible security is also subject to the risks associated with common stocks. The return and principal value of stocks fluctuate with changes in market conditions.

Alternative investments, such as hedge funds and private capital funds, carry specific investor qualifications and involve the risk of investment loss, including the loss of the entire amount invested. While investors may potentially benefit from the ability of alternative investments to potentially improve the risk-reward profiles of their portfolios, the investments themselves can carry significant risks. Government regulation and monitoring of these types of investments may be minimal or nonexistent. There may be no secondary market for alternative investment interests and transferability may be limited or even prohibited.

The use of alternative investment strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, are speculative and involve a high degree of risk. These strategies may expose investors to risks such as short selling, leverage risk, counterparty risk, liquidity risk, volatility risk, the use of derivatives and other significant risks. Distressed credit strategies invest in, and might sell short, the securities of companies where the security's price has been, or is expected to be, affected by a distressed situation. This may involve reorganizations, bankruptcies, distressed sales, and other corporate restructurings. Investing in distressed companies is speculative and involves a high degree of risk. Because of their distressed situation, these securities may be illiquid, have low trading volumes, and be subject to substantial interest rate and credit risks. Structured credit strategies aim to generate returns via positions in the credit sensitive area of the fixed income markets. The strategy generally involves the purchase of corporate bonds with hedging of interest rate exposure. The use of alternative investment strategies may require a manager's skill in assessing corporate events, the anticipation of future movements in securities prices, interest rates, or other economic factors. No assurance can be given that a manager's view of the economy will be correct which may result in lower investment returns or higher return volatility.

Privately offered **real estate** funds are speculative and involve a high degree of risk. Investments in real estate and real estate investments trusts have special risks, including the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions. There can be no assurance a secondary market will exist and there may be restrictions on transferring interests.

Investments in **fixed-income securities** are subject to interest rate and credit risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and principal. High yield fixed income securities are considered speculative, involve greater risk of default, and tend to be more volatile than investment grade fixed income securities. Municipal bonds offer interest payments exempt from federal taxes, and potentially state and local income taxes. They are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Mortgage-related and asset-backed securities are subject to prepayment risks. Changes in prepayments may significantly affect yield, average life and expected maturity.

Currency hedging is a technique used to seek to reduce the risk arising from the change in price of one currency against another. The use of hedging to manage currency exchange rate movements may not be successful and could produce disproportionate gains or losses in a portfolio and may increase volatility and costs.

Investing in **foreign securities** presents certain risks that may not be present in domestic securities. For example, investments in foreign, emerging and frontier markets present special risks, including currency fluctuation, the potential for diplomatic and potential instability, regulatory and liquidity risks, foreign taxation and differences in auditing and other financial standards.

Master Limited Partnerships (MLPs) involves certain risks which differ from an investment in the securities of a corporation. MLPs may be sensitive to price changes in oil, natural gas, etc., regulatory risk, and rising interest rates. A change in the current tax law regarding MLPs could result in the MLP being treated as a corporation for federal income tax purposes which would reduce the amount of cash flows distributed by the MLP. Other risks include the volatility associated with the use of leverage; volatility of the commodities markets; market risks; supply and demand; natural and man-made catastrophes; competition; liquidity; market price discount from Net Asset Value and other material risks.

There are special risks associated with investing in **preferred securities.** Preferred securities are subject to interest rate and credit risks and are generally subordinated to bonds or other debt instruments in an issuer's capital structure, subjecting them to a greater risk of non-payment than more senior securities. In addition, the issue may be callable which may negatively impact the return of the security. Preferred dividends are not guaranteed and are subject to deferral or elimination.

Private debt has speculative characteristics that include potential default, limited liquidity and the infrequent availability of independent credit ratings for private companies.

There are risks associated with investments in **private companies**. Such companies are not subject to SEC reporting requirements and are not required to maintain effective internal controls over financial reporting. These companies may have limited financial resources; shorter operating histories; more asset concentration risk; narrower product lines and smaller market shares that larger companies. In addition, securities issued by private companies are typically illiquid and there may be no readily available trading market for such securities.

Investing in **real estate** involves special risks, including the possible illiquidity of the underlying property, credit risk, interest rate fluctuations and the impact of varied economic conditions.

The prices of **small and mid-size company** stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Technology and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Treasury Inflation-Protected Securities (TIPS) are subject to interest rate risk, especially when real interest rates rise. This may cause the underlying value of the bond to fluctuate more than other fixed income securities. TIPS have special tax consequences, generating phantom income on the "inflation compensation" component of the principal. A holder of TIPS may be required to report this income annually although no income related to "inflation compensation" is received until maturity.

There is no assurance that any of the target prices or other forward-looking statements mentioned will be attained.

Index and Other Definitions

An index is unmanaged and not available for direct investment

Inflation is the change in the **Consumer Price Index (CPI)**. The CPI measures the price of a fixed basket of goods and services purchased by an average consumer.

Core inflation is the change in the **core Consumer Price Index (CPI).** The core CPI measures the price of a fixed basket of goods and services—excluding the volatile food and energy components—purchased by an average consumer.

Conference Board's Leading Economic Index (LEI) is a composite average of ten leading indicators in the US. It one of the key elements in the Conference Board's analytic system, which is designed to signal peaks and troughs in the business cycle.

Consumer Confidence Index measures consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.

Disclosures *(continued)*

Markit Manufacturing Purchasing Managers Index (PMI) tracks manufacturing and service sector activity in the Eurozone. An Index value over 50 indicates expansion; below 50 indicates contraction. The values for the index can be between 0 and 100.

The **Producer Price Index (PPI)** program measures the average change over time in the selling prices received by domestic producers for their output.

The **Chicago Board Options Exchange Volatility Index (VIX)** is an index designed to track market volatility as an independent entity. The index is calculated based on option activity and is used as an indicator of investor sentiment, with high values implying pessimism and low values implying optimism.

The Institute of Supply Management (ISM) Purchasing Manager's Index gauges internal demand for raw materials/goods that go into end-production. An Index value over 50 indicates expansion; below 50 indicates contraction. The values for the index can be between 0 and 100.

The **US Dollar Index (USDX, DXY)** is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

The Institute of Supply Management (ISM) Non-manufacturing Index (ISM Services Survey) measures the rate and direction of change in activity in the nonmanufacturing industries. An index with a score over 50 indicates that the industry is expanding, and a score below 50 shows a contraction. The values for the index can be between 0 and 100.

Real economic growth is the change in the gross domestic product (GDP) adjusted for inflation—that is, the volume of services and goods produced in the United States.

West Texas Intermediate Crude Oil is a light, sweet (i.e., low sulfur) crude oil which is the main type of U.S. crude oil traded in U.S. futures markets.

Brent Crude Oil is a light, sweet crude oil extracted from the North Sea. It serves as a major benchmark price for purchases of oil worldwide.

Bond credit rating. A grade given to bonds that indicates their credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these evaluations of a bond issuer's financial strength, or its the ability to pay a bond's principal and interest in a timely fashion. The general meaning of these credit rating opinions are as follows:

A—Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.

Fixed Income Representative Indices

U.S. Taxable Investment Grade Fixed Income. **Bloomberg Barclays US Aggregate Bond Index** is an index composed of the Government Bond Index, the Asset-Backed Securities Index and the Mortgage-Backed Securities Index and includes U.S. Treasury issues, agency issues, corporate bond issues and mortgage-backed issues.

Short Term Taxable Fixed Income. **Bloomberg Barclays U.S. Aggregate 1-3 Year Bond Index** is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 1-3 years.

Intermediate Term Taxable Fixed Income. **Bloomberg Barclays U.S. Aggregate 5-7 Year Bond Index** is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 5-7 years.

Long Term Taxable Fixed Income. **Bloomberg Barclays U.S. Aggregate 10+ Year Bond Index** is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 10 years or more.

Cash Alternatives/Treasury Bills. **Bloomberg Barclays U.S. Treasury Bills (1-3M) Index** is representative of money markets.

U.S. Treasury. **Bloomberg Barclays US Treasury Index** includes public obligations of the U.S. Treasury with a remaining maturity of one year or more.

U.S. Corporate. **Bloomberg Barclays US Corporate Index** includes publicly issued U.S. corporate and Yankee debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

U.S. MBS. **Bloomberg Barclays US Mortgage Backed Securities (MBS) Index** includes mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

U.S. Agency. **Bloomberg Barclays US Agency Index** measures the performance of the agency sector of the U.S. government bond market and is comprised of investment-grade native-currency U.S. dollar-denominated debentures issued by government and government-related agencies, including FNMA.

U.S. Municipal Bond. **Bloomberg Barclays US Municipal Index** represents municipal bonds with a minimum credit rating of at least Baa, an outstanding par value of at least $3 million and a remaining maturity of at least one year. The index excludes taxable municipal bonds, bonds with floating rates, derivatives and certificates of participation.

U.S. TIPS. **Bloomberg Barclays US TIPS Index** represents Inflation-Protection securities issued by the U.S. Treasury.

U.S. Government. **Bloomberg Barclays US Government Bond Index** includes U.S.-dollar-denominated, fixed-rate, nominal U.S. Treasury securities and U.S. agency debentures.

Credit. **Bloomberg Barclays US Credit Index** includes investment-grade, U.S.-dollar-denominated, fixed-rate, taxable corporate- and government-related bonds.

Securitized. **Bloomberg Barclays US Mortgage Backed Securities (MBS) Index** includes agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

High Yield Taxable Fixed Income. **Bloomberg Barclays US Corporate High-Yield Index** covers the universe of fixed-rate, non-investment-grade debt.

Developed Market Ex-U.S. Fixed Income (Unhedged). **J.P. Morgan GBI Global ex-US Index (Unhedged)** in USD is an unmanaged index market representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets.

Developed Market Ex-U.S. Fixed Income (Hedged). **J.P. Morgan Non-U.S. Global Government Bond Index (Hedged)** is an unmanaged market index representative of the total return performance, on a hedged basis, of major non-U.S. bond markets. It is calculated in U.S. dollars.

Emerging Market Fixed Income (U.S. Dollar). **J.P. Morgan Emerging Markets Bond Index** (EMBI Global) currently covers 27 emerging market countries. Included in the EMBI Global are U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

Emerging Market Fixed Income (Local Currency). **J.P. Morgan Government Bond Index-Emerging Markets Global (USD Unhedged)** is a comprehensive global local emerging markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds.

Equity Representative Indices

U.S. Large Cap Equities. **S&P 500 Index** is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

U.S. Large Cap Equities (Growth). **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

U.S. Large Cap Equities (Value). **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

U.S. Mid Cap Equities. **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 27 percent of the total market capitalization of the Russell 1000 companies.

U.S. Mid Cap Equities (Growth). **Russell Midcap Growth Index** measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values.

U.S. Mid Cap Equities (Value). **Russell Midcap Value Index** measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

U.S. Small Cap Equities. **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 8 percent of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

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Disclosures *(continued)*

U.S. Small Cap Equities (Growth). Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values.

U.S. Small Cap Equities (Value). Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Developed Market Ex-U.S. Equities (U.S. Dollar)/(Local). MSCI EAFE Developed Market Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. It is unmanaged and unavailable for investment. Statistics are shown in U.S. dollars and local currency.

Emerging Market Equities (U.S. Dollar)/(Local). MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Frontier Market Equities (U.S. Dollar/Local). MSCI Frontier Markets Index is a free-float-adjusted market-capitalization index that is designed to measure equity performance of the world's least-developed capital markets. Statistics are shown in U.S. dollars and local currency.

Real Assets Representative Indices

Public Real Estate FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real-estate companies and REITs in developed countries worldwide.

Domestic REITs. FTSE NAREIT US All Equity REITs Index is designed to track the performance of REITs representing equity interests in (as opposed to mortgages on) properties. It represents all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets, other than mortgages secured by real property that also meet minimum size and liquidity criteria.

International REITs. FTSE EPRA/NAREIT Developed ex US Index is designed to track the performance of listed real estate companies in developed countries worldwide other than the United States.

MLPs. Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return basis and on a total-return basis.

Commodities (S&P GSCI). S&P Goldman Sachs Commodity Index is a trade-weighted index of commodity sector returns representing unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The index includes futures contracts on 24 physical commodities, of which Energy represents nearly 70 percent.

Commodities (BCOM). Bloomberg Commodity Index represents futures contracts on 19 physical commodities. No related group of commodities (e.g., energy, precious metals, livestock and grains) may constitute more than 33 percent of the index as of the annual reweightings of the components. No single commodity may constitute less than 2 percent of the index.

Commodities (RICI). The Rogers International Commodity Index is a U.S. dollar based index representing the value of a basket of commodities consumed in the global economy. Representing futures contracts on 37 physical commodities, it is designed to track prices of raw materials not just in the U.S. but around the world.

Alternative Investments Representative Indices

Global Hedge Funds. HFRI Fund Weighted Composite Index. A global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net-of-all-fees performance in U.S. Dollars and have a minimum of $50 Million under management or a 12-month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

Relative Value Arbitrage. HFRI Relative Value (Total) Index. Strategy is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager. RV position may be involved in corporate transactions also, but as opposed to ED exposures, the investment thesis is predicated on realization of a pricing discrepancy between related securities, as opposed to the outcome of the corporate transaction.

Arbitrage. HFRI RV: Fixed Income Sovereign Index. Includes strategies predicated on realization of a spread between related instruments in which one or multiple components of the spread is a sovereign fixed income instrument. Strategies employ an investment process designed to isolate attractive opportunities between a variety of fixed income instruments, typically realizing an attractive spread between multiple sovereign bonds or between a corporate and risk free government bond. Fixed Income Sovereign typically employ multiple investment processes including both quantitative and fundamental discretionary approaches and relative to other Relative Value Arbitrage sub-strategies, these have the most significant top-down macro influences, relative to the more idiosyncratic fundamental approaches employed.

Long/Short Credit. HFRI RV: Fixed Income—Corporate Index. Includes strategies predicated on realization of a spread between related instruments in which one or multiple components of the spread is a corporate fixed-income instrument. Strategies are designed to isolate attractive opportunities between a variety of fixed income instruments, typically realizing an attractive spread between multiple corporate bonds or between a corporate and risk free government bond. They typically involve arbitrage positions with little or no net credit market exposure, but are predicated on specific, anticipated idiosyncratic developments.

Structured Credit/Asset Backed. HFRI RV: Fixed Income—Asset Backed Index. Includes strategies predicated on realization of a spread between related instruments in which one or multiple components of the spread is a fixed-income instrument backed by physical collateral or other financial obligations (loans, credit cards) other than those of a specific corporation. Strategies are designed to isolate attractive opportunities between a variety of fixed income instruments specifically securitized by collateral commitments, which frequently include loans, pools and portfolios of loans, receivables, real estate, machinery or other tangible financial commitments. Investment thesis may be predicated on an attractive spread given the nature and quality of the collateral, the liquidity characteristics of the underlying instruments and on issuance and trends in collateralized fixed-income instruments, broadly speaking. In many cases, investment managers hedge, limit, or offset interest-rate exposure in the interest of isolating the risk of the position to strictly the disparity between the yield of the instrument and that of the lower-risk instruments.

Macro. HFRI Macro (Total) Index. Encompass a broad range of strategies predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard-currency, and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches and long- and short-term holding periods. Although some strategies employ RV techniques, Macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments rather than on realization of a valuation discrepancy between securities. In a similar way, while both Macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposed to EH, in which the fundamental characteristics on the company are the most significant are integral to investment thesis.

Systematic Macro. HFRI Macro: Systematic Diversified Index. Diversified strategies employing mathematical, algorithmic and technical models, with little or no influence of individuals over the portfolio positioning. Strategies are designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes. Strategies typically employ quantitative processes which focus on statistically robust or technical patterns in the return series of the asset, and they typically focus on highly liquid instruments and maintain shorter holding periods than either discretionary or mean-reverting strategies. Although some strategies seek to employ counter-trend models, strategies benefit most from an environment characterized by persistent, discernible trending behavior. Typically have no greater than 35 percent of portfolio in either dedicated currency or commodity exposures over a given market cycle.

Discretionary Macro. HFRI Macro: Discretionary Thematic Index. Strategies primarily rely on the evaluation of market data, relationships and influences, as interpreted by individuals who make decisions on portfolio positions; strategies employ an investment process most heavily influenced by top-down analysis of macroeconomic variables. Investment Managers may trade actively in developed and emerging markets, focusing on both absolute and relative levels on equity markets, interest rates/fixed income markets, currency and commodity markets; they frequently employ spread trades to isolate a differential between instrument identified by the Investment Manager as being inconsistent with expected value. Portfolio positions typically are predicated on the evolution of investment themes the Manager expects to develop over a relevant time frame, which in many cases contain contrarian or volatility-focused components.

Disclosures *(continued)*

Event Driven. HFRI Event Driven (Total) Index. Maintains positions in companies currently or prospectively involved in corporate transactions of a wide variety including mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated and frequently involve additional derivative securities. Exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company-specific developments. Investment theses are typically predicated on fundamental (as opposed to quantitative) characteristics, with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

Activist. HFRI ED: Activist Index. Strategies may obtain or attempt to obtain representation on the company's board of directors in an effort to impact the firm's policies or strategic direction and in some cases may advocate activities such as division or asset sales, partial or complete corporate divestiture, dividends or share buybacks, and changes in management. Strategies employ an investment process primarily focused on opportunities in equity and equity-related instruments of companies that are currently or prospectively engaged in a corporate transaction, security issuance/repurchase, asset sales, division spin-off or other catalyst-oriented situation. These involve both announced transactions and situations in which no formal announcement is expected to occur. Activist strategies would expect to have greater than 50 percent of the portfolio in activist positions, as described.

Distressed Credit. HFRI ED: Distressed/Restructuring Index. Strategies focus on corporate fixed-income instruments, primarily corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceedings or financial-market perception of near-term proceedings. Managers are typically actively involved with the management of these companies; they are frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity or hybrid securities. Managers employ fundamental credit processes focused on valuation and asset coverage of securities of distressed firms; in most cases portfolio exposures are concentrated in instruments that are publicly traded, in some cases actively and in others under reduced liquidity but in general for which a reasonable public market exists. Strategies employ primarily debt (greater than 60 percent) but also may maintain related equity exposure.

Merger Arbitrage. HFRI ED: Merger Arbitrage Index. Strategies primarily focus on opportunities in equity and equity-related instruments of companies that are currently engaged in a corporate transaction. Merger Arbitrage involves primarily announced transactions, typically with limited or no exposure to situations in which no formal announcement is expected to occur. Opportunities are frequently presented in cross-border, collared, and international transactions that incorporate multiple geographic regulatory institutions, typically with minimal exposure to corporate credits. Strategies typically have over 75 percent of positions in announced transactions over a given market cycle.

Equity Hedge. HFRI Equity Hedge (Total) Index. Equity Hedge: Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. EH managers would typically maintain at least 50 percent exposure to, and may in some cases be entirely invested in, equities, both long and short.

Directional Equity. HFRX EH: Multi-Strategy Index. Managers maintain positions both long and short in primarily equity and equity-derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage, holding period, concentrations of market capitalizations, and valuation ranges of typical portfolios. Managers typically do not maintain more than 50 percent exposure to any one Equity Hedge sub-strategy

Equity Market Neutral. HFRI EH: Equity Market Neutral Index. Strategies employ sophisticated quantitative techniques to analyze price data to ascertain information about future price movement and relationships between securities. These can include both Factor-based and Statistical Arbitrage/Trading strategies. Factor-based investment strategies include strategies predicated on the systematic analysis of common relationships between securities. In many cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified. Statistical Arbitrage/Trading strategies consist of strategies predicated on exploiting pricing anomalies which may occur as a function of expected mean reversion inherent in security prices; high-frequency techniques may be employed; trading strategies may also be based on technical analysis or designed opportunistically to exploit new information that the investment manager believes has not been fully, completely, or accurately discounted into current security prices. Strategies typically maintain characteristic net equity market exposure no greater than 10 percent long or short.

Note: While the HFRI Indices are frequently used, they have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and, therefore, the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI Indices are based on information hedge fund managers decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. Returns of the underlying hedge funds are net of fees and are denominated in USD.

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