WELLS FARGO

INVESTMENT INSTITUTE

2016 Outlook

Navigating Risk in a Year of Change

Please see pages 22 and 23 for important terms and disclosures.

ECONOMIC AND MARKET FORECAST

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GLOBAL ECONOMY	2016E	2015E	2014
Domestic U.S. GDP growth	2.6%	2.5%	2.4%
Domestic U.S. inflation	2.0%	0.6%	1.6%
Domestic U.S. unemployment rate	4.8%	5.0%	5.6%
Global GDP growth	3.5%	3.4%	3.4%
Developed-market GDP growth	2.2%	2.1%	1.8%
Developed-market inflation	1.7%	0.4-1.25%	0.7%
Emerging-market GDP growth	4.4%	4.4%	4.6%
Emerging-market inflation	5.3%	4.0-4.9%	5.3%
Eurozone GDP growth	1.8%	1.5%	0.9%
Eurozone inflation	1.1%	0.4%	-0.2%
Dollar/euro exchange rate	$1.00-1.04	$1.06-1.10	$1.21

GLOBAL EQUITIES			
S&P 500 Index	2230-2330	2087 (A)	2059
S&P 500 operating earnings per share	$130	$122	$119
Russell Midcap® Index	1670-1770	1639 (A)	1663
Russell Small Cap Index	1120-1220	1180 (A)	1205
MSCI Europe, Australasia, Far East (EAFE) Index	1770-1870	1744 (A)	1775
MSCI Emerging Markets (EM) Index	790-870	841 (A)	956

GLOBAL FIXED INCOME			
10-year U.S. Treasury yield	2.5-3.0%	2.25-2.50%	2.17%
30-year U.S. Treasury yield	3.0-3.5%	2.75-3.00%	2.75%
Fed funds rate	0.75-1.00%	0.50%	0.25%

GLOBAL REAL ASSETS			
West Texas Intermediate Crude price	$45-55	$40-45	$53
Brent Crude price	$50-60	$45-50	$57
Gold price	$950-1050	$1050-1150	$1184

Sources: FactSet, Bloomberg, and Wells Fargo Investment Institute
GDP = gross domestic product
E = estimate
A = actual figures as of November 23, 2015
Wells Fargo Investment Institute forecasts. Forecasts are not guaranteed and are subject to change.
Past performance is no guarantee of future results.

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Navigating Risk in a Year of Change

Uneven growth across regions means investors will need to be selective in choosing investments, particularly international assets. Now that we appear to be entering the latter stages of the current economic cycle, we believe volatility will pick up in most financial markets. To navigate the economic and political changes we anticipate through year-end 2016, we suggest that investors manage certain risks in their portfolios. We believe the following changes will significantly influence the global economy and investment assets in 2016.

Shift in Monetary Policy

We expect the Federal Reserve (Fed) to increase interest rates.

Change in Political Landscape

Presidential elections in late-2016 will bring a change in leadership for the U.S.

Changing Consumer Behavior

Low oil and gasoline prices are contributing to a shift in consumer spending patterns.

Growing Uncertainty

Volatility is likely to increase across financial markets.

Global Economic Transition

Global trade is evolving with impacts to developed and emerging-market economies.

Our Outlook for Markets in 2016 …

… and Beyond

Four Themes That May Shape Financial Markets in the Coming Years

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Growth Prospects are Slightly Better

Analysis and Outlook

- *We expect global economic growth to edge higher in 2016 as developed markets grow at a slightly faster pace than in 2015. Emerging-market economic expansion should match its 2015 growth rate.*
- *Persistently low commodity prices and global excess factory capacity likely will foster a low-inflation environment in most countries. Meanwhile, the pace of U.S. dollar gains should moderate somewhat in 2016.*

What It May Mean for Investors

- *Environment should continue to favor equities over bonds.*
- *To reduce risk, we prefer developed over emerging equity markets.*
- *We recommend a 50 percent U.S. dollar hedge on developed fixed-income exposure and U.S. dollar-denominated emerging-market fixed-income exposure, but we do not recommend hedging currency risk for equities.*

2016 should bring a slightly faster pace of global economic growth. We expect the U.S. and European economies to provide the most economic momentum in 2016.

Consumers should again drive the U.S. economy. Consumer confidence benefits from job availability and wage growth, low energy prices and inflation, and low borrowing rates. The combination should spark additional home buying and spending in other sectors. Government expenditures should also support growth. However, concerns about slow global trade may persist and subdue U.S. business spending and revenues from international activity. On balance, we forecast a slightly faster U.S. economic growth pace (from an estimated 2.5 percent in 2015 to 2.6 percent in 2016).

The European and Japanese economic recoveries are developing slowly but should gain momentum in 2016. As in the U.S., European and Japanese consumer sentiment should brighten with labor-market improvements. Labor-market reforms in Europe are starting to generate job growth, and wages in Japan are on the rise. In turn, a more confident consumer is likely to increase demand for credit, and this recovery should support modestly stronger European and Japanese economic expansion.

Among the emerging economies, civil unrest inhibits growth in places, but slow global trade likely will be the main limiting factor. Led by China, the emerging economies have the most pressing need to consolidate manufacturing and mining capacity. Surplus factory space is being retired slowly, and we forecast that the emerging economies will expand in 2016 at the same 4.4 percent pace we expect for 2015.

Inflation should remain benign in the global environment of slow trade and low commodity prices, but we expect some gradual normalization. As factories and mines restrain output, raw material prices should stabilize. We expect consumer price inflation to rise to 2.0 percent in the U.S. Elsewhere, the problems of disinflation (slowing inflation) and deflation (falling prices) should diminish.

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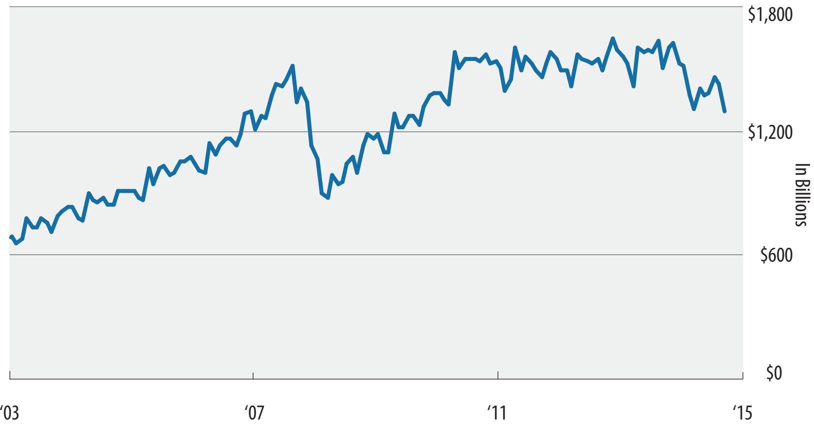
Global Trade Is on the Decline

World Exports



Trade is near the lowest level of the post-2008 recovery.

Sources: Bloomberg and Wells Fargo Investment Institute. Latest data August 31, 2015

U.S. Dollar Strength to Continue

The U.S. dollar strengthened against a wide range of currencies among developed and emerging markets in 2015, and that trend should continue, but at a slower pace, in 2016. The dollar's two main supports are stronger economic growth and widening interest-rate differentials across countries. The U.S. economy has outperformed the Eurozone and Japanese economies since 2014 as the dollar has surged in value against the euro and the yen. The economic-growth gap across these regions should narrow somewhat in 2016. Yet U.S. interest rates may widen their lead over Eurozone and Japanese equivalents as we expect continued (and perhaps increased) monetary easing in the Eurozone and the developed economies of the Pacific Rim.

Against emerging-market currencies, the U.S. dollar also should be supported by economic and interest-rate differentials. As with the dollar's developed-market competitors, financial factors give the dollar an important advantage over many emerging-market currencies as rising U.S. yields and equity-market outperformance augment investment flows out of those currencies. In addition, our forecast for moderate growth in emerging economies collectively masks the potential for greater devaluation among some prominent currencies, including the Brazilian real and the Chinese yuan. Meanwhile, the Indian rupee and Mexican peso should outperform the real and the yuan while holding firm or possibly even appreciating slightly against the dollar. As a result, we emphasize overall dollar gains but a more differentiated outlook for particular currencies.

— BEYOND 2016 —

Consumers, Commodities, and Currencies

The ongoing recovery is gradual and needs more time to overcome a glut of factories built up before the recession.

2016 Global Gross Domestic Product (GDP) Growth Forecasts

	SHARE OF GLOBAL OUTPUT	2016E	2015E
Developed Economies	43.1%	2.2%	2.1%
United States	17.5%	2.6%	2.5%
United Kingdom	2.6%	2.6%	2.8%
Eurozone	12.5%	1.8%	1.5%
Japan	4.5%	1.2%	1.0%
Emerging Economies	56.9%	4.4%	4.4%
Brazil	3.0%	-0.4%	-1.4%
Mexico	2.0%	3.2%	2.6%
China	16.3%	6.2%	6.8%
India	6.8%	7.2%	7.5%

Source: Wells Fargo Investment Institute, July 2015
Forecasts are not guaranteed and are subject to change.
Select developed- and emerging-economy countries shown.

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Opportunities in Developed Markets

Analysis and Outlook

- *We foresee the opportunity for improved earnings growth for the S&P 500 Index and the MSCI Europe, Australasia, Far East (EAFE) Index.*
- *We expect international developed equity markets to continue to benefit from an improving global economy next year. However, emerging-market equities are likely to underperform global equities again in 2016.*

What It May Mean for Investors

- *We recommend overweight allocations to large-cap U.S. and international developed-market equities, and an underweight to emerging-market equities.*
- *We recommend sector overweight allocations to Consumer Discretionary, Technology, and Industrials.*

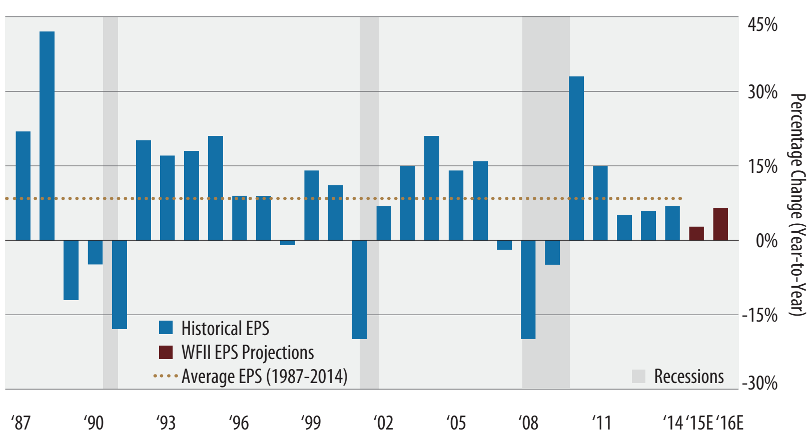
We are most attracted to U.S. large-cap and developed international large-cap stocks. We anticipate that certain factors should help fuel S&P 500 Index earnings growth and modest price appreciation in 2016. An improvement in Energy-sector earnings comparisons should restore several percentage points of S&P 500 Index earnings growth in 2016.

An upswing in consumer spending should benefit many Consumer Discretionary segments. A positive economic backdrop and limited existing home inventories in some regions should continue to favor the homebuilding industry—and segments that benefit from residential building. Capital spending growth is likely to boost Technology-sector fundamentals and some portions of the industrial economy as domestic manufacturing capacity tightens. Additional upside could result from a stable U.S. dollar and potential stock buybacks.

Overall, we foresee roughly a 6 or 7 percent increase in S&P 500 Index operating earnings for 2016. That growth is most likely to be led by the Consumer Discretionary and Technology sectors of the economy. We foresee revenue growth for the S&P 500 Index to be slightly greater than our expectation for nominal GDP growth of 4.6 percent. Operating-margin expansion is likely to be modest, and share repurchases should favorably impact the bottom line. Our 2016 S&P 500 Index target range is 2230-2330. This assumes a $130 operating-earnings projection,

Large-Cap Stock Earnings Growth Likely to Continue

S&P 500 Earnings per Share (EPS)



We foresee roughly a 6.6 percent increase in S&P operating earnings for 2016.

Sources: Standard & Poor's and Wells Fargo Investment Institute, November 2015
Estimates are not guaranteed.

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and a multiple that is consistent with the current trailing 12-month price-to-earnings ratio (P/E) of 17.5 times. Furthermore, if we compare S&P 500 Index P/E valuations relative to the 10-year U.S. Treasury note yield, stocks appear quite attractive compared to bonds today. We see room for interest rates to slowly move higher before materially impacting S&P 500 Index valuations.

With a series of U.S. quantitative easing (QE) programs behind us (and as the Fed slowly increases the fed funds rate), we anticipate an increase in market volatility in the next few years in contrast to the below-average volatility we have been experiencing throughout the current economic cycle. However, data from recent cycles suggest that domestic equities persistently move higher for several years following the first rate increase. Later in 2016, the U.S. presidential election could also spur episodes of volatility in the domestic markets.

Our expectations for the U.S. equity market's small-cap and mid-cap segments over the next 12 months are more modest. Small-cap firms typically have less exposure to international growth and are generally less financially capable of buying back shares. Even though small-cap equities likely will see solid earnings growth in 2016, their current valuations appear less compelling than in 2015. Overall, we expect better traction for large-caps, followed by mid-caps and then small-caps.

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Fuel for Growth

Another round of accelerated growth in emerging markets is likely in the coming decade, possibly emanating from Southeast Asia.

Developed Market Gains Depend on Profit Growth

We expect international developed equity markets to continue to benefit from an improving global economy in 2016. However, these markets should increasingly be driven by the ability of individual companies to generate profit growth. Companies will need to improve profit margins to generate earnings growth that is higher than the projected modest revenue increases. Margins should benefit from lower oil prices and productivity-enhancing investments. In addition, multinational companies may continue to reap the benefits of a weaker euro.

The risk to our positive outlook for developed-market equities is if earnings do not improve. Such a risk could result from lackluster consumer demand or slower global growth. Weaker growth likely would impede export-oriented economies, especially Germany. Our year-end target range for the MSCI EAFE is 1770-1870, and our earnings target is $124. We do not foresee much valuation expansion, and market gains should closely match any profit growth. We expect an improving global economy will support earnings gains across many international developed equity markets.

Slight Rebound in Emerging-Market Equities

Earnings in emerging markets are 20 percent below 2011 levels. While we expect a slight rebound in emerging-market earnings in 2016, they should remain well below the peaks of four years ago. We are forecasting earnings for the MSCI Emerging Markets (EM) Index to reach $76 next year. Valuations are below historical averages, and should remain steady in 2016. Our year-end target price range for the MSCI EM Index is 790-870.

The predominant risks for emerging markets are further weakness in China's economic growth and global commodity prices. Nevertheless, there is a chance that earnings could improve above our projections. When an asset class has been as maligned over the past few years as emerging markets, any slight improvement in fundamentals has the potential to induce swift relief rallies. In view of a potential rebound, we believe investors should maintain some exposure to emerging markets. Yet, we remain cautious in emerging markets and anticipate many of the challenges that have weighed on their performance over the past few years will continue to do so in 2016.

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Make the Most of an Active and Volatile Bond Market

Analysis and Outlook

- *The fixed-income markets are currently sending mixed signals to investors. The yield curve is implying continued economic growth, but widening credit spreads are troubling.*
- *We expect the Fed to raise rates, at most, three times by the end of 2016. Our federal funds rate target at year-end 2016 is 0.75 percent to 1.00 percent.*

What It May Mean for Investors

- *To potentially reduce credit risk, we recommend a move up in credit quality and an underweight to the high-yield sector of the U.S. bond market.*
- *We suggest general obligation and essential service revenue municipals that carry at least a single-A credit rating.*
- *We believe investors should underweight developed-market bonds as current yields do not compensate for risk.*

The fixed-income markets have been sending mixed signals to investors in the current market environment. The yield curve remains sufficiently steep, indicating the potential for continued economic growth, but widening credit spreads are concerning. Given the uncertain economic, monetary, and political climate coupled with the perplexing signals from the bond market, investors should expect an active and volatile fixed-income market in 2016.

Interest Rate Outlook

Considering the myriad uncertainties facing the bond market today, we expect the Fed to raise rates, at most, three times before the end of 2016. Our federal funds rate target range at year-end 2016 is 0.75 percent to 1.00 percent. The U.S. labor market continues to be the bright spot for those calling for a faster pace of rate increases. We see positive labor-market data offset by disappointing inflation trends, which continue to track below the Fed's objective. While we look for the Consumer Price Index (CPI), a key measure of the U.S. inflation rate, to hit two percent in 2016, the Fed prefers to track Personal Consumption Expenditures (PCE), which is likely to remain below the Fed's two percent target throughout 2016. As the Fed slowly raises short-term rates, we see longer-term rates inching only slightly higher and the yield curve gradually flattening throughout 2016.

Volatility and Cause for Concern

Given the mixed global growth signals, uncertain Fed policy, and the twists and turns that typically come with a general election cycle, we expect interest rates to be quite volatile at times in 2016. Ten-year U.S. Treasury yields are likely to, at times, move outside the two percent to three percent range. Ultimately a continued slow-growth and low-inflationary environment should allow the Fed to raise rates a few times next year, while longer-term rates are expected to remain relatively low.

The widespread slowdown in emerging markets is a significant concern for bond investors today. We do, however, expect that current global economic uncertainty will gradually ease in 2016 as domestic growth continues to strengthen. The positive slope of the yield curve may indicate that a significant economic slowdown within the next year is unlikely. If the yield curve were to substantially flatten from current levels, we would likely shift to a more defensive strategy in our portfolio positioning. Given the mixed signals in today's bond market, investors should establish a well-diversified fixed-income portfolio as we wait for clearer signals to emerge. We recommend balancing credit risk and interest-rate risk to help maintain performance while strongly advising investors to avoid overexposure to any particular type of risk.

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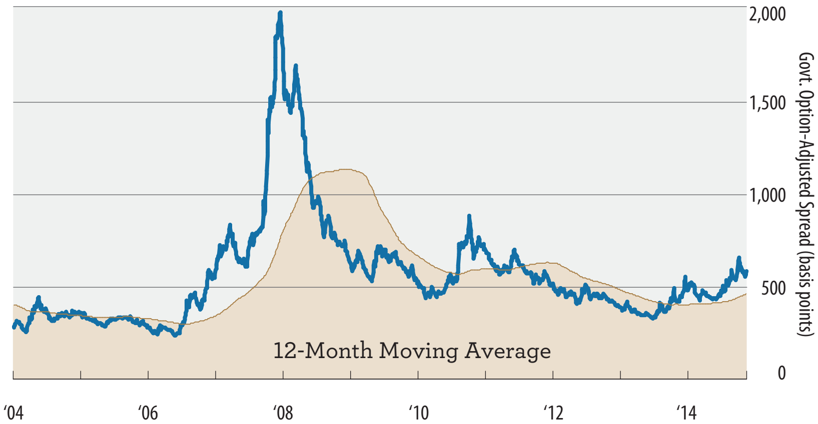
Corporate Credit Spreads Are Widening

Barclays U.S. Corporate High Yield Index vs. Treasury Securities



Widening corporate credit spreads are a concern.

Sources: Bloomberg, Barclays, and Wells Fargo Investment Institute, August 2015

The data shown represent the yield differential between the Barclays U.S. Corporate High-Yield Index and comparable maturity U.S. Treasury securities, adjusted for the effects of embedded options, a call feature in which the issuer retains the right to retire the debt, fully or partially, before the scheduled maturity date. One basis point equals 1/100 of 1 percent. Indices are unmanaged, and it is not possible to invest directly in an index. Past performance is no guarantee of future results.

Looking Deeper

Credit: Credit spreads have been widening since mid-2014. At times in the past, this tendency has foreshadowed a more significant economic slowdown. Given our view that the U.S. economy will avoid a slowdown, we believe the credit sector may offer some compelling opportunities for investors at some point in 2016. Until economic signals indicate otherwise, we recommend investors move up in credit quality and underweight the high-yield sector based on the potential for near-term volatility and liquidity challenges. We are likely to see an increase in defaults in the energy and metal sectors in the near term as credit facilities come due or are reevaluated. An upsurge in defaults could further pressure credit spreads to widen.

Municipals: For investors in higher tax brackets, we recommend considering allocations to municipal securities held in taxable accounts. We urge investors to look beyond the headlines and focus on the municipal market's underlying fundamentals, which continue to improve. We suggest investors accumulate general obligation and essential service revenue issues that carry at least a single-A credit rating. Tax reform discussions are likely to become increasingly heated as we approach the election. However, we do not anticipate any meaningful progress on U.S. tax legislation in 2016.

Developed markets: The international fixed-income outlook remains challenged in 2016. Developed-market bond yields are likely to linger at very low levels throughout 2016. In addition, there is a good chance that the European Central Bank's (ECB) QE bond-purchase program will be expanded or extended further. We believe investors should underweight developed-market bonds.

Emerging markets: We are neutral on dollar-denominated emerging-market debt allocations as we expect the sector to be slightly more stable than in 2015, though spreads may continue to widen slowly. We see continued weakness in emerging-market currencies in 2016 as China no longer is the engine for robust growth in these economies. However, the pace of decline may ease in the coming years if commodity prices stabilize as we expect. We recommend allocations to U.S. dollar strategies rather than local currency strategies.

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Living Longer and Living Better

Older investors tend to purchase more bonds than younger investors, and pension funds usually shift assets into bonds as their beneficiaries grow older.

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Expect Volatility, Then Stability in Commodity Prices

Analysis and Outlook

- *Oil prices likely will remain volatile throughout 2016 but then stabilize over the next two years.*
- *Underlying fundamentals indicate modestly lower gold prices.*
- *Market conditions in 2016 should be more favorable for master limited partnerships (MLPs) and real estate investment trusts (REITs) than in 2015.*

What It May Mean for Investors

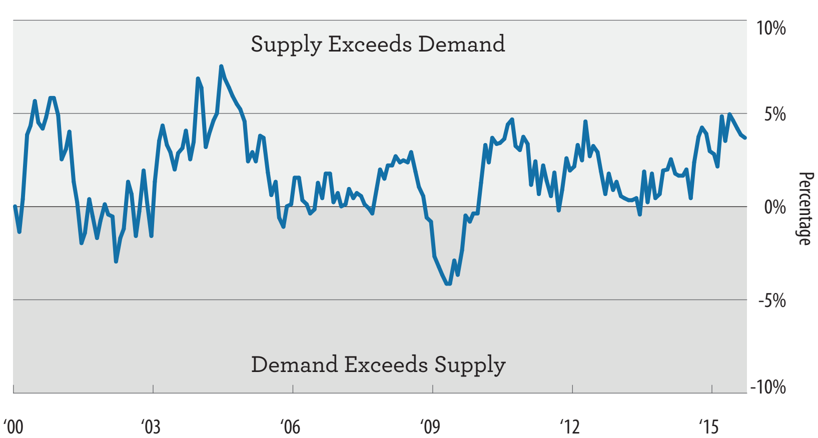
- *To potentially reduce risk, hold oil and gold only as part of a diversified commodities exposure within a well-diversified portfolio.*
- *As interest-rate-induced volatility persists, we maintain a neutral weighting to REITs.*
- *The worst is probably over for MLPs. Parts of this market offer the potential for attractive returns for investors with the appropriate risk tolerance and desire for income.*

In 2015, lower commodity prices forced some adjustments in the oil, metals, and agricultural markets. The global supply of commodities has outpaced global demand despite generally positive demand growth. For 2016, we likely will see surpluses in industrial metals and some agricultural commodity sectors, such as cotton and coffee. In grain markets, China's demand for corn, soybeans, and wheat appears set to grow and should begin whittling down global surpluses. In these grain markets, prices may move sideways in 2016. Miners of industrial metals, such as copper, nickel, aluminum, and zinc are starting to consolidate some of their mines and cut output at others with the aim of reducing excess metal inventories, but these steps may not be enough to produce upward price momentum in 2016.

The prospects in energy markets are more mixed. U.S. natural gas prices should remain weak, especially if the El Niño weather pattern moderates U.S. winter temperatures. Crude oil inventories have been growing, as shown in the chart below. However, we expect these inventories to be worked down in 2016. Oil prices are likely to stabilize in the coming two years but for 2016 may remain in a volatile range and could be as low as $45 or as high as $55 at year-end. Whether prices finish higher or lower depends on the extent of production cuts that drillers have resisted so far. The more drillers surrender to low prices and their strained financial conditions, the more production could fall and prices could finish higher. However, oil investors

Oil Supply Has Continued to Exceed Demand

Excess Supply in Global Oil Markets



Crude oil inventories have generally been growing over the past two years

Sources: Energy Intelligence Group (via Bloomberg) and Wells Fargo Investment Institute, November 2015

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looking to benefit from low prices have been disappointed waiting for driller capitulation for nearly a year. It is increasingly likely that they will have to wait another year, or longer. Until we see a broader decrease in global production, we advise holding oil only as part of a broadly diversified commodity position that does not, in total, exceed two or three percent of the portfolio.

Thus, the risk of a decline in commodities prices in the near term is possible. Further unanticipated weakness in demand may push prices lower and specifically includes the possibility of prices at times below $40 per barrel for U.S. West Texas intermediate crude oil. Less likely but still concerning is the potential for temporary commodity price surges due to weather, geopolitical conflicts, or other unforeseen production interruptions. We expect any such interruptions to be short-lived.

Finally, the fundamental evidence suggests modestly lower gold and silver prices for the next year. Historically, precious metal prices relate inversely to inflation-adjusted yields and the dollar's value. Next year we expect a small increase in real yields and a moderate advance for the U.S. dollar. Our 2016 target of $950-$1,050 per troy ounce for gold prices reflects our view that further strengthening in the dollar, imminent interest rate hikes from the Fed, and low global inflation are likely to put downward pressure on gold and silver prices.

Outlook Brighter for REITs and MLPs

REITs: Our overall view for real estate investment trusts (REITs) in 2016 is neutral. Despite strong operating fundamentals, U.S. REITs spent most of 2015 reacting to short-term moves in bond-market yields triggered by uncertainty over the timing of a Fed rate hike. Historically, REITs have tended to perform independently from rising interest rates over the longer-term, but the extended ambiguity from the Fed has overshadowed the asset class's benefits. Ultimately, the commercial real estate market's strength and the broader U.S. economy drive REIT returns. Adding exposure to global REITs can also provide further diversification benefits to a portfolio. However, their performance is expected to vary across regions with some of the best values in Asia, particularly in Hong Kong, while Europe should provide improvements in operating fundamentals.

MLPs: In our view, uncertainty surrounding the energy markets and a misinterpretation of the underlying fundamentals, along with the relatively low liquidity levels in the master limited partnership (MLP) market, contributed to their poor performance in 2015. We are more optimistic about MLP prospects in 2016, particularly for higher-quality midstream partnerships. First, given the large downturn in energy prices, investors should have less trepidation about energy prices falling significantly further. Second, although energy production has declined in 2015, we expect demand will continue to increase, supporting healthy pipeline volumes. Finally, while we forecast a slowdown in distribution growth, we do not anticipate significant distribution cuts from midstream partnerships.

We believe that the worst is over for MLP performance and current valuations for many midstream MLPs already discount the likelihood of lower distribution growth, offering investors the potential for attractive returns. For investors with an appropriate risk tolerance and desire for income, a small portion of the REIT allocation could be reallocated to MLPs.

— BEYOND 2016 —

Consumers, Commodities, and Currencies

Excess factory space is hindering global trade and suppressing commodity demand growth. While we expect progress in 2016, it may take years to balance supply and demand.

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Mitigate Risk Amid Change

Analysis and Outlook

- *Overall, we believe macroeconomic conditions remain favorable for alternative investments in terms of potential diversification and return benefits for investors.*
- *In today's market environment, we prefer strategies that take a Balanced, Opportunistic, Low Net Exposure, and Tactical (BOLT) approach. These strategies seek to take advantage of higher volatility, periodic price dislocations, and occasional liquidity shocks.*

What It May Mean for Investors

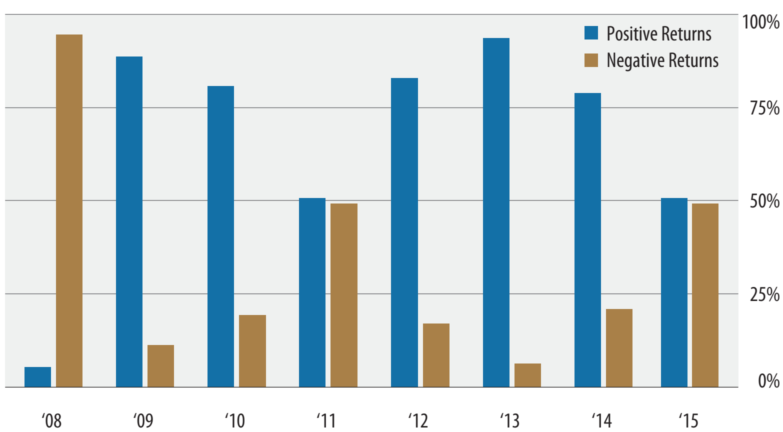
- *Equity Hedge remains our highest conviction strategy, and we maintain an overweight recommendation to it.*
- *With a stronger environment for credit selection, we have upgraded our recommendation for Relative Value to overweight.*
- *We continue to recommend a neutral weight for Macro and upgraded the Macro-Discretionary sub-strategy from neutral weight to overweight.*

We think the macroeconomic environment over the next 12 months will be characterized by increasing differentiation between fundamentally strong assets and those susceptible to deflationary pressures, higher interest rates, and commodity weakness. In such an environment, we prefer alternative investment strategies that take a Balanced, Opportunistic, Low Net Exposure, and Tactical (BOLT) approach. These are strategies that can take advantage of higher volatility, periodic price dislocations, and occasional liquidity shocks—features we are observing in today's financial markets—to help offset equity and fixed-income risks within a well-diversified portfolio. In the current macroeconomic environment, we favor more agile alternative investment strategies. These types of strategies have the flexibility to potentially profit from falling equity and credit prices while offering the potential to tactically allocate to areas under severe distress.

Overall, we believe conditions should remain favorable for alternative investments over the next year, both in terms of providing potential diversification and return benefits for investors. The following section offers thoughts on several strategies as we approach 2016.

Current Environment May Be Ideal for Stock Pickers

S&P 500 Dispersion (Percent of Individual Stocks with Positive and Negative Returns)



Dispersion in the S&P 500 has created a positive environment for long/short strategies.

Source: Bloomberg and Wells Fargo Investment Institute, November 2015

S&P 500 Index dispersion was calculated by dividing the securities within the S&P 500 that have a positive total return within a given year by the total number of securities in the index, then doing the same for securities with a negative total return within a given year.

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Looking Deeper

Equity Hedge: The Equity Hedge strategy remains our highest conviction strategy, and we maintain an overweight recommendation to it. We continue to see a landscape characterized by low correlations and high levels of dispersion, which, coupled with an increase in volatility and higher interest rates, should bode well for security selection, a vital component of this strategy.

Relative Value: With a stronger environment for credit selection (see the fixed-income outlook) and our outlook for continued moderate growth of the U.S. economy, we have upgraded our recommendation for Relative Value to overweight. The collapse in commodity prices and the pending increase in U.S. interest rates have increased both volatility and dispersion among fixed-income and credit asset classes.

Macro: We continue to recommend a neutral weighting for Macro, but we have upgraded the Macro-Discretionary sub-strategy from neutral weight to overweight. The tendency toward diverging monetary policies across regions is expected to become more prevalent in 2016, which we expect, in turn, will produce a host of diverse trends in the equity, fixed-income, and currency sectors. Furthermore, we anticipate a key benefit of the strategy—its low correlation to global equity and fixed income markets—likely will be a valuable contributor to diversification for many investor portfolios.

Event Driven: We have downgraded Event Driven from neutral weight to underweight. Despite record levels of corporate deal activity, we believe the Event Driven strategy may be susceptible to bouts of volatility as a result of rising interest rates, uneven growth in Asia and Europe, and diverging global central bank policies.

Private Equity: Private company valuations remain high in our estimation, supporting our underweight recommendation to Private Equity. We believe tempered valuations and a pullback in deal activity could be healthy for an environment we have persistently described as "overheated." The "cooling off" of the equity markets could make investing in traditional private equity more attractive in the future.

Private Debt: We continue to favor Private Debt and credit-oriented strategies that often present opportunities for attractive income streams. While bank-lending activity has ticked up in recent months, there is still ample opportunity for investors to access private debt. Alternative sources of credit and non-dilutive financing, particularly in sectors with high barriers to entry (e.g., healthcare), appear attractive to us going forward.

Private Real Estate: Within Private Real Estate, we favor strategies that are patient and flexible with extended time horizons. We believe the greatest risk/reward opportunities lie within commercial real estate, particularly for long-term investors who prefer appreciation over income. Moreover, value-add and opportunistic real estate investors can also benefit from today's overheated core pricing.

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.

— BEYOND 2016 —

Disruptions and Volatility

Disruptions to markets, industries, and political systems may adversely affect asset prices, but lower prices and innovative technologies can also create opportunities for investors.

Please see pages 22 and 23 for important terms and disclosures.

FOCUS THEME ONE

Consumers, Commodities, and Currencies

How are these fundamental factors for economic growth connected?

Economic growth is largely impacted by consumer activity, commodity prices, and currency valuations. For example, low oil prices tend to negatively impact economies that heavily export energy resources, such as Russia and Venezuela, while emerging markets with large manufacturing sectors that are net importers of oil, such as Taiwan, typically benefit from cheaper energy prices. Such broad generalizations, however, fail to recognize that currency and other financial markets are inextricably linked. Looking at market opportunities through a multifaceted lens, we generally favor countries that benefit from improving consumer confidence, lower commodity prices, and currency translations that do not outweigh any market gains.

The Aftermath of the Global Consumption Surge

Between 1995 and 2005, the digital technology revolution and rapid industrialization of several East Asian countries resulted in strong worker productivity gains. These complementary trends boosted income and spending around the world, resulting in a hasty expansion of factory space to accommodate the consumption surge. Following the great recession, consumption growth has slowed and the glut of idle factories across China, Europe, and the U.S. has become a significant headwind for economic growth. At the same time, lower commodity prices, China's push toward becoming a consumption-driven economy, and a stronger dollar all present potential opportunities for investors.

Over time, we believe that improving consumer spending and debt reduction should reduce today's excess production capacity. Until global consumption picks up, businesses around the world have been reluctant to expand their property, plant, and equipment, hindering global trade. When China closes factories, for example, Brazil, Indonesia, and Australia export less copper, zinc, and iron ore. In turn, miners need fewer tools, which slows revenue streams for heavy machinery makers in the U.S., tire makers in Europe, and chemical manufacturers in Singapore.

We are seeing countries increasingly adopt policies that foster economic adjustment and believe that concerns about a slow-growth "new normal" disregard these economic reforms. Recovering domestic markets have been bolstering the U.S. and European economies as households enjoy low energy prices, low interest rates, and low inflation. As spending picks up, recovering job growth reinforces household confidence and generally leads to more spending. The U.S. economy has a relatively stronger domestic orientation than Europe, and comparatively stronger U.S. economic prospects have helped boost the dollar against other currencies. We expect the productive capacity adjustment period in the U.S. may require another two or three years to complete but likely will be longer for many other countries.

Low Energy Prices Drive Consumer Growth

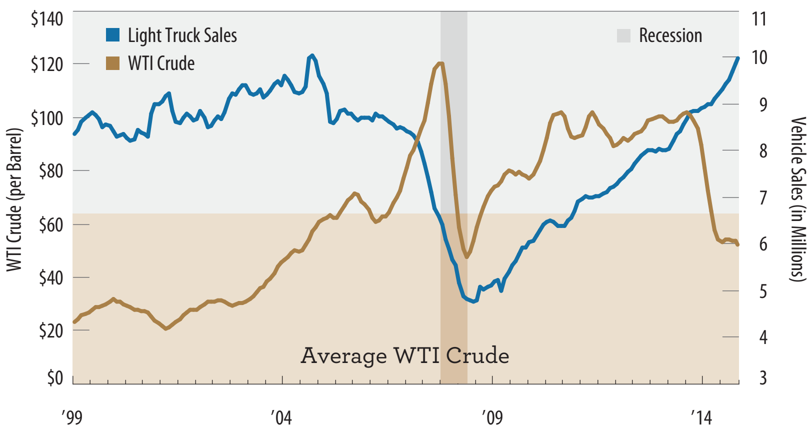
Over the past year, global oil and gas prices have plummeted, flirting with multi-year lows. There is broad agreement that lower oil prices, if sustained, may boost consumer demand and raise the global economic growth rate despite the offsetting effects from oil producers. With our forecast for oil prices to remain well below recent highs, we believe the net result

Please see pages 22 and 23 for important terms and disclosures.

should be modestly positive for consumer activity and the global economy. Lower gasoline prices in the U.S. could generate an annualized saving of around $92 billion per year.[1] Savings on a proportional scale can also be applied to other large net consumers of oil, such as the Eurozone, Japan, and China. When gasoline prices in the U.S. drop below their multi-year average, historically, we have noted nearly a 20 percent increase in light truck sales. In the chart below, we see that gas prices have fallen below their long-term average and truck sales have matched their all-time high set in 2005.

Lower Oil Prices Have Boosted Truck Sales

West Intermediate Crude (WTI) Price vs. Light Truck Sales



Thanks in part to dropping oil prices, truck sales recently approached the unit sales peak set in 2005.

Source: FactSet, November 2015

What Does This Mean for Investors?

Consumption-driven growth and low inflation generally favor equities over bonds, but with some additional nuances. For instance, we think a new U.S. recession is unlikely while the domestic housing and labor markets are improving. Nevertheless, consumer sentiment tends to fluctuate—sometimes with the weather—and may trigger corresponding market swings. Likewise, Europe and Japan are also on the mend, but these economies may advance unevenly. Meanwhile, reforms in emerging markets across Asia and Latin America are widespread, but their outcomes are difficult to predict, particularly in the near term. For this reason we are underweight emerging-market equities.

In addition, the slow recovery may not immediately create broad-based selling opportunities in bond markets, implying that investors should continue to diversify between bonds and equities despite low yields. Investors seeking income may supplement bond yields with equity dividend income. They may also consider the relative attractiveness of European international dividend yields over their U.S. counterparts. Dividends, of course, are only one consideration when investing, and high dividend yields tend to be unsustainable. Dividends are not guaranteed and subject to change or elimination.

Risk to our view: The main risk to our preference for equities over bonds is if consumer spending stalls, it will delay factory consolidation and commodity price stabilization. Countries that struggle with this potential scenario could suffer further currency depreciation. By contrast, more successful rebalancing efforts should boost consumer spending and help to stabilize commodity prices and exchange rates.

The typical savings in gas prices for the average U.S. consumer over the last year.

Source: Wells Fargo Investment Institute calculation using AAA and U.S. Census Bureau data. November 2015.

[1]Based on 2014 U.S. gasoline consumption. Wells Fargo Investment Institute, November 2015

FOCUS THEME TWO

Fuel for Growth

Where should we look for growth opportunities in 2016 and beyond?

The global economy is now seven years into a slow, uneven recovery that has varied dramatically across countries. We believe a unique set of factors in the U.S., the Eurozone, Japan, and the emerging markets will support late-cycle growth.

U.S.: The U.S. economy, like most developed economies, is driven primarily by consumer activity. Improving confidence, low commodity prices, and a steady stream of innovative products and services may drive economic growth and corporate earnings in the U.S.

Europe: While Europe's growth relies heavily on consumers, deep reforms, especially in the labor market, are necessary. We believe bank lending, ECB bond buying, and improving demand for credit may help to spark growth in the region.

Japan: Growth in Japan should be supported by monetary policies and fiscal reforms. Japanese trade and manufacturing activity is heavily dependent on the U.S. and China. Improvements in those two economies should eventually start to spill over to Japan.

Emerging markets: Emerging markets should continue to increase their contribution to the global economy, and a larger percentage of their population likely will join the middle class. Looking ahead, although growth in China, the largest emerging market, may be slower, it should generate better prospects for earnings. China's service sector is highly inefficient, and any improvements should help boost productivity and earnings.

90% of the world's population under the age of 30 lives in emerging-market countries.

Source: Euro-monitor International, November 2015

Over the next decade, another round of accelerated growth in emerging markets is likely, particularly in Southeast Asia. Thailand, Vietnam, Malaysia, and Indonesia should acquire manufacturing that is no longer efficient to do in China. As China transitions to a service-based economy, some greater differentiation of growth sources within Asia should provide a wider set of opportunities for investors. In each of these markets, however, we expect lower-than-historical-average returns, particularly in the near term. Investors may find opportunities in areas of the market that are most likely to focus on innovation.

The Search for Returns

Investors seeking opportunities in today's low-growth, low-interest rate, low-inflationary environment are eager for investments that will potentially generate sufficient growth to meet long-term goals. With current market conditions expected to persist for several more years, we have reduced most of our cyclical (3-5 year) market return assumptions. We also have decreased many of our strategic (10-15 year) return expectations based on a reduction in our long-term inflation outlook.

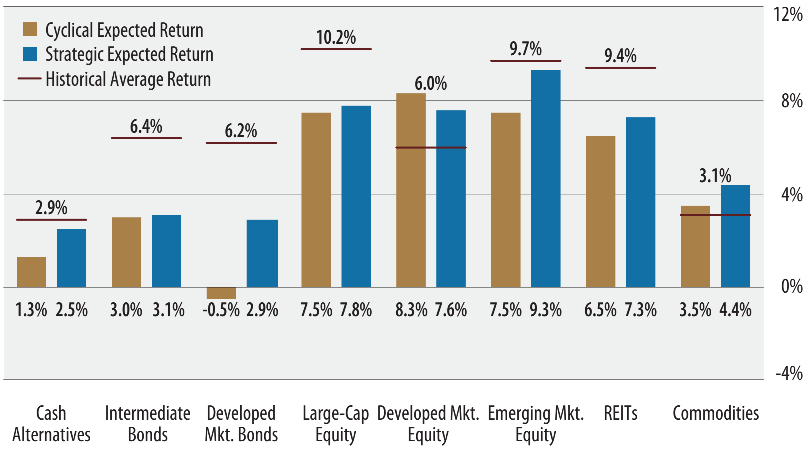
In the current environment of widespread monetary easing, bonds have experienced significant investment inflows. This influx has caused bond prices to rise and yields and yield spreads to diminish, resulting in reduced return expectations for fixed-income assets.

Equity prices also have increased with many indices near their all-time highs; however, equities still appear fairly valued when comparing today's P/E ratios to historical averages. From our tactical, cyclical, and strategic views, our outlook favors equities over bonds and developed markets over emerging markets. Nevertheless, we caution investors to resist becoming impatient with lower returns and haphazardly chasing after performance.

Please see pages 22 and 23 for important terms and disclosures.

We Forecast Returns to Be Below Historical Averages

Historical Returns Compared to Our Expected Return Assumptions



Source: Wells Fargo Investment Institute, November 2015. **Cash alternatives/Treasury bills:** Ibbotson Associates SBBI (Stocks, Bonds, Bills, and Inflation) U.S. 30 Day T-Bill Index. **Intermediate bonds:** Barclays U.S. Aggregate (5-7 year) Index. **Developed-market bonds:** JP Morgan Global Ex-United States Index. **Large-cap equities:** S&P 500 Index. **Developed-market equities:** MSCI Europe, Australasia, Far East (EAFE) Index. **Emerging-market equities:** MSCI Emerging Markets (EM) Index. **REITs:** FTSE EPRA/NAREIT Developed Index. **Commodities:** Bloomberg Commodity Index.

Cyclical (three-to-five year) and Strategic (10-to-15 year) Expected Returns are forward-looking estimates from Wells Fargo Investment Institute of how asset classes and combinations of classes may respond during various market environments. They are not designed to predict actual performance and may differ greatly from actual performance. There are no assurances that any estimates given will be achieved. Historical average returns are for data from 1991 to 2014. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results. Chart is for illustrative purposes only.

Our cyclical and strategic return outlooks take into consideration the low growth, low interest rate, and low inflationary environment .

Growth Fueled by Technology

Despite our reduced return expectations, we believe innovation will help fuel growth. Technological advances can affect businesses and even entire industries in constructive ways, creating value for investors and synergies for companies. Pockets of innovation can be found in nearly every industry.

The Internet: With the evolution of the World Wide Web in the early 1990s, the Internet has given rise to a myriad of new enterprises, several of which are worth billions of dollars, adding enormous value to the global markets.

Social media: Since its introduction shortly after the rise of the Internet, social media has swiftly leveled the playing field for small businesses and individuals with entrepreneurial aspirations.

Mobile and digital technology: Mobile technology has revolutionized retail, customer service, and financial services in exciting ways. It has transformed the way families and friends stay in touch, job-seekers apply for jobs, multinational companies and mom-and-pop shops reach potential customers, and even the way presidential candidates campaign for elections.

What Does This Mean for Investors?

We believe U.S. large-cap equities should continue to perform well in 2016. We favor Technology, Industrials, and Consumer Discretionary at this point in the economic cycle. We advise allocating above long-term targets to Eurozone equities. We recommend keeping Eurozone sovereign-debt holdings below target allocations as they are currently unattractively priced. We believe growth prospects will be strong for emerging markets over the long term, but recommend taking a more cautious approach in the near term with an underweight allocation to these markets.

Risk to our view: There is both downside and upside risk to our view. The downside risk is that we are farther along in the cycle than we had presumed. A shock to weak global trade could push growth below our expectations. The upside risk is that we are not as far along in this cycle as we believe and as consumer spending strengthens, more homes, autos, and retail goods are sold in the coming years than we anticipate. In this scenario growth assets could "melt-up."

Recession or Continued Recovery?

The following are similar across U.S. and international economies:

Tailwinds

- Rising Consumer Confidence
- Increasing Household Spending
- Low Energy Prices, Inflation, and Interest Rates
- Easy Monetary Policy

Headwinds

- Soft International Trade
- Political Uncertainties
- Oscillating Business Confidence

Source: Wells Fargo Investment Institute, November 2015

Please see pages 22 and 23 for important terms and disclosures.

FOCUS THEME THREE

Disruptions and Volatility

What if the 2008 financial crisis was not an anomaly? What if a region experiences a cataclysmic event on the scale of the Japanese earthquake and tsunami in 2011?

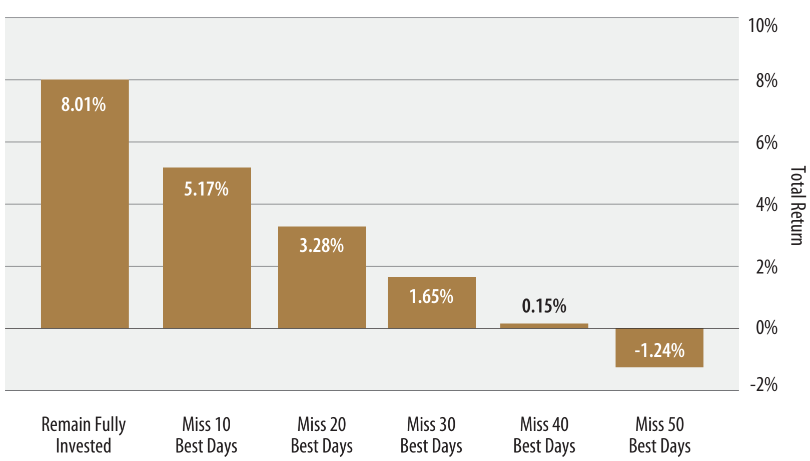
Questions such as those above linger in many investors' minds, despite the sizeable recovery the global economy has made since each of these crises—and for good reason. Information flow is instantaneous, global markets are more interconnected than ever before, financial derivative instruments are more widely used, trading algorithms initiate market orders without human interaction, and natural disasters are simply unpredictable. Factors like these suggest disruptive events followed by extended periods of market volatility can happen anytime and anywhere. Meanwhile, advances in biotechnology, robotics, and technological innovation in the retail sector, although at times risky and tenuous ventures, may offer opportunities for investors, especially for those with a high risk tolerance.

The Return of Market Volatility

Managing through periods of disruptions or transitions is never easy. Disruptive events historically have caused market volatility that can lead to poor decision-making. To put this into perspective, if you remove the best 60 months of performance for the S&P 500 Index since 1926, the average return for the remaining months is barely positive. Even being out of the market for a matter of days can drastically impact your returns. The chart below shows the results of being out of the equity market during the relatively few days when most of the upside return was generated.

Time in the Market Has Been More Valuable Than Timing the Markets

Risk of Missing the Best Days in the Market, S&P 500 Index, 1989-2014



Although the market often exhibits significant volatility, over the longer term, stock investors who stayed the course could have been rewarded.

Source: Wells Fargo Investment Institute, November 2015

Stocks are represented by the S&P 500 Index. The data assumes reinvestment of income and does not account for taxes or transaction costs. Past performance is no guarantee of future results. Chart is for illustrative purposes only and is not meant to represent the performance of any particular investment. An index is unmanaged and not available for direct investment.

Please see pages 22 and 23 for important terms and disclosures.

Technology Disruptions

We often hear about risks to financial markets posed by nascent or cutting-edge technology. The "Flash Crash" of May 2010 triggered by automated algorithmic trade mechanisms lasted only 36 minutes. During that time, the S&P 500 Index plunged nearly 10 percent before rebounding by market close. In 2013, a "flash freeze" halted trading on the Nasdaq for three hours due to a technical glitch that disrupted quote dissemination. Advances in technology do not necessarily reduce all risks but instead frequently raise concerns about the reliability of the systems they support.

Advances in technological innovation often create fears about jobs becoming obsolete. Throughout history, periods of technical achievement—agricultural, industrial, and Internet revolutions—have led to short-term labor disruptions. But fears of machines taking the place of humans invariably have been exaggerated, and in fact, usually lead to improvements in productivity, efficiency, and standard of living. Looking ahead, we expect new technologies to continue challenging the status quo.

Snapchat gets 6 billion views per day, up from 2 billion, a three-fold increase in half a year.

Source: The Verge, November 8, 2015

Other Potentially Disruptive Forces

Technological disruptions are a primary culprit of market volatility, but other potential disruptors can also lead to uncertainty in the capital markets.

Business and business model disruptions: In recent years, innovative enterprises such as Uber and Airbnb are challenging business models of large corporations and are even rethinking what it means to be a company. These young startups are disrupting traditional and often heavily unionized service-sector industries and pioneering a new type of corporate arrangement.

Geopolitical events: Unexpected crises are likely to develop and create new uncertainties. Global migration is a phenomenon involving nearly 300 million people, according to the United Nations, and movements of people can lead to humanitarian crises in many different parts of the world. Civil strife also has been on the rise, and could create instability as old borders are redrawn. With so much transnational activity taking place today, we anticipate geopolitical changes leading to periodic volatility in the coming years.

Political climate: Closer to home, the U.S. presidential elections in late-2016 will give rise to a new political chapter. As the candidates' campaigns gain steam and we draw closer to the primary elections, we expect market volatility to pick up. Investors also will be following the United Kingdom's referendum to leave the European Union as well as important elections in a number of emerging economies.

What Does This Mean for Investors?

We believe investors should prepare for the potential of more disruptions and greater volatility in the coming years. At the same time, periodic episodes of volatility may generate potential new investment opportunities.

As we move into the later stages of this economic and market cycle, investors have been searching for income, growth, stability, and mitigation of downside risk. With yields and performance likely to be below average for many asset classes, now it is more important than ever to employ a well-diversified investment portfolio.

Alternative investment strategies can be beneficial in periods of volatility. Private equity may also offer opportunities to invest in emerging technologies and fast-growing small businesses.

Risk to our view: The risk to this theme is to the upside. Lower volatility than we are forecasting could result should the Fed move slower than expected or monetary policy abroad becomes more generous than anticipated. An increase in trade could also result in higher global growth than is currently expected.

Please see pages 22 and 23 for important terms and disclosures.

FOCUS THEME FOUR

Living Longer and Living Better

What risks do living longer and healthier lives pose for investors?

The World Health Organization's latest report on life expectancies shows a wide range of estimates from 46 years for a baby born in 2013 in Sierra Leone to 84 years for a baby born during the same year in Japan. The U.S. joins most other developed countries in the top 34 of 194 countries ranked by life expectancy at birth. Russia, India, and many African countries are in the bottom half of the list. When we compare life expectancy with GDP, we see a clear relationship between the wealth of a country and its citizens' life expectancy.

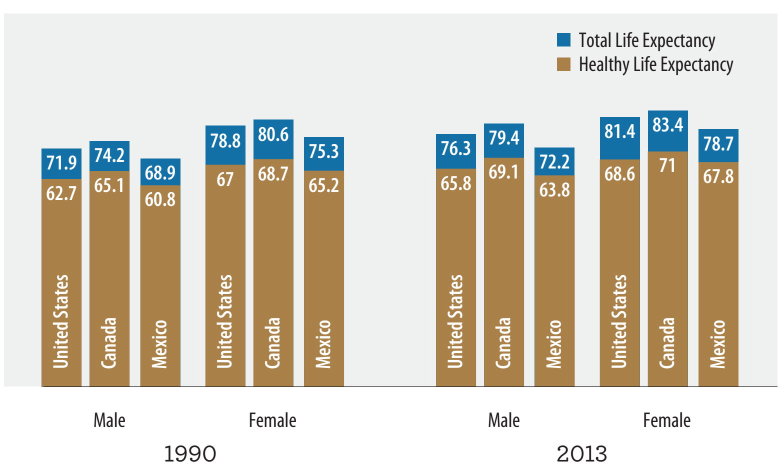
Your life expectancy thus depends in large part on the wealth of the country in which you live. People in wealthier countries have access to more advanced medical treatments and may be more knowledgeable about sanitation and nutrition. However, could a country's health and longevity contribute to the nation's wealth? There is likely a symbiotic relationship. Healthier workers can contribute more to the economy, and studies have concluded that working during one's senior years can have a positive influence on a worker's health. While higher GDP and longer life expectancy are related, the difference between most high-income countries and lower-income countries has narrowed. That means people globally are living longer lives and GDP across many more countries is rising.

The fixed-income allocation of U.S. private defined benefit pension plans has shifted from 21 percent in 2005 to 39 percent in 2014.

Source: Wells Fargo Securities, LLC, and The Federal Reserve, September 2015

Studies have also shown that medical science, public education, and sanitation efforts have contributed not only to longer lifespans for many in the global community but also to healthier life expectancies. Improvements in health have led to global life expectancy rising by 6.2 years since 1990, and healthy life expectancy also has risen by 5.4 years, so people on average are living longer with illnesses and disabilities. This has implications for healthcare companies, including pharmaceutical companies whose products help manage chronic diseases.

As Longevity Rises, People With Chronic Illness Are Living Longer



Healthcare advances are helping people manage long-term diseases and disabilities.

Source: Global Burden of Disease Study 2013, Mortality and Causes of Death Collaborators, as published in Lancet.

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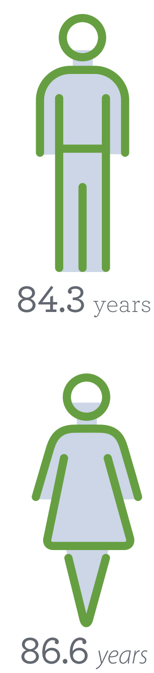
Outlook for Investors–Will the Crisis be Averted?

Studies show many workers are choosing to work longer, and that trend is benefiting the overall economy. In the U.S., the real median income for 65-69 year-olds increased 26 percent from 1993 to 2013, and over the same time period, income increased 23 percent for 70-74 year-olds. While common wisdom may suggest a higher percentage of seasoned workers in the workforce crowds out younger workers, the empirical evidence shows otherwise. Unemployment rates tend to be lower where there are greater numbers of older workers employed.

That has led some to say the longevity crisis could, instead, turn out to be a longevity dividend. When experienced workers have opportunities to continue contributing in productive ways, the outcome could benefit individual workers, the corporations that employ them, and the overall economy. Should the workforce continue to evolve in this way, employees may find it necessary to invest for their future and plan to work well into their golden years.

As employees invest, they may look for alternatives to lower-yielding traditional retirement assets, such as bonds, and prefer, instead, to source or supplement their income from employment rather than relying entirely on income-generating assets and social programs. The implications for all investors could be profound. Rather than being a drain on the economy, an aging workforce may be an advantage. A more productive workforce and greater investment in growth assets could generate continued positive returns in growth assets over the coming decades notwithstanding the typical economic downturns that are expected parts of the economic cycle. So rather than avoiding all countries with aging populations, we think investors should consider investing in countries, such as the U.S., that are employing more of their aging workforce in innovative and productive ways.

Average Life Expectancy for a 65-Year-Old Today



Source: Social Security Administration, ssa.gov, November 2015

What Does This Mean for Investors?

Are you prepared to fund 20 or even 30 years of retirement? Many individuals are not, and that has led some to claim there will be a longevity crisis. Indeed, the Social Security Administration cautions future retirees that "the law governing benefit amounts may change because, by 2034, the payroll taxes collected will be enough to pay only about 79 cents for each dollar of scheduled benefits." That means current workers may need to rely less on Social Security for their own retirement yet pay more toward taxes to fund the current system. Policy changes will determine how Social Security is paid in the coming decades, but investors today can take measures to prepare for longer, healthier lives. Younger investors can take advantage of the compounding effect over time by saving as soon as they begin their working lives and investing more heavily in growth assets, such as equities.

Meanwhile, older workers should assess the compatibility of their retirement assets and their retirement lifestyle expectations. To balance their assets and expectations, some may choose to work longer, while others may choose to cut expenses. Still others may augment their income with potential capital appreciation by increasing their exposure to equities while trimming bond holdings. Annuities—designed to address longevity risk—are another financial instrument some investors may wish to consider. We recommend working together with an investment professional to develop a plan that addresses your individual goals and objectives, tolerance for risk, and time horizon.

Risk to our view: The risk is that assets do not generate even conservative expected growth rates and investors fall behind for lack of viable investment growth opportunities. This would force many investors to make difficult choices about working longer or living more frugally.

Please see pages 22 and 23 for important terms and disclosures.

Definitions

Indexes

An index is unmanaged and not available for direct investment.

Barclays U.S. Aggregate Bond Index covers the U.S. dollar-denominated, investment-grade (rated Baa3 or above by Moody's), fixed-rate, and taxable areas of the bond market. This is the broadest measure of the taxable U.S. bond market, including most Treasury, agency, corporate, mortgage-backed, asset-backed, and international dollar-denominated issues, all with maturities of one year or more.

Barclays U.S. Corporate High-Yield Bond Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB= or below. Included issues must have at least one year until final maturity.

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.

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

Ibbotson Associates SBBI (Stocks, Bonds, Bills, and Inflation) U.S. 30 Day T-Bill Index shows the growth in value of $100 from 30 day U.S. Treasury bills including gross interest reinvested.

JP Morgan Global Ex United States Index (JPM GBI Global Ex-US) is a total return, market capitalization weighted index, rebalanced monthly, consisting of the following countries: Australia, Germany, Spain, Belgium, Italy, Sweden, Canada, Japan, United Kingdom, Denmark, Netherlands, and France.

MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

Russell 2000® Index (small cap) measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25% of the total market capitalization of the Russell 1000® Index.

S&P 500® Index consists of 500 industrial, financial, utility and transportation companies with market capitalizations of $4 billion or more.

Terms

Alternative investments are investments outside of the traditional asset classes (stocks, bonds, cash alternatives) and can include investments in private equity, hedge funds, and managed futures.

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.

Commodities are basic goods used in commerce that are generally interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services.

Consumer Price Index (CPI) is a measure of the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

Dispersion is calculated by dividing the number of securities within the S&P 500 with a positive return within a given year by the total number of securities in the index. The same was done for securities with a negative total return within a given year.

Emerging markets are financial markets in countries with developing economies. These markets are typically immature compared to those of the world's major financial centers but are becoming increasingly sophisticated and integrated into international markets; they provide potentially higher returns but are intensely volatile.

Gross domestic product (GDP) is the total value of the goods and services the economy produces during a year. Increasing GDP indicates growing economic activity. Decreasing GDP suggests the opposite.

High yield is noninvestment-grade fixed-income securities (rated Ba1 or lower by Moody's and/or BB+ or lower by S&P). These investments are considered to be speculative and are subject to a higher degree of risk.

Intermediate-term fixed income includes instruments that mature in six to 12 years.

International investing involves putting money into financial markets in developed economies outside of the United States.

Large-cap stocks have a market cap greater than $10 billion.

Liquidity, in regard to the economy, is a reference to the money supply. The greater the liquidity, the larger the money supply. Market liquidity is a reference to the ability to sell assets at an acceptable price within a reasonable time frame. Liquidity may vary from asset to asset and according to market conditions.

Long-term fixed income includes instruments whose maturities are greater than 12 years.

Mid-cap stocks have a market cap between $2 billion – $10 billion.

Option adjusted spread is a measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, analysts use the Treasury securities yield for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond.

Personal Consumption Expenditure (PCE) deflator index measures the prices paid by consumers for goods and services. The "core" PCE price index is defined as personal consumption expenditure prices excluding food and energy. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

Quantitative easing is a central bank strategy for increasing the money supply (adding liquidity) to help keep interest rates low and stimulate economic activity. In general, it involves central bank purchases of bonds from banks, providing them with money to lend to businesses and consumers.

Real estate investment trusts (REITs) trade on the major exchanges and invest in real estate directly, either through properties or mortgages.

Short-term fixed income includes instruments that mature in one to six years.

Small-cap stocks have a market cap less than $2 billion.

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.

Risk Considerations

Alternative investment risk considerations

Alternative investments, such as hedge funds, private equity/private debt and private real estate strategies, are speculative and 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. These investments are only available to persons who are "accredited investors" or "qualified purchasers" within the meaning of U.S. securities laws. Investors could lose all or a substantial amount investing in these products.

Alternative investment strategies are speculative and involve a high degree of risk. The alternative investment strategies discussed above employ aggressive investment techniques, including short sales, leverage, swaps, futures contracts, options, forward contracts and other derivatives which can expose the investor to substantial risk. The use of short selling involves the risk of potentially unlimited increase in the market value of the security sold short, which could result in potentially unlimited loss for the investment. In addition, taking short positions in securities is a form of leverage which may cause a portfolio to be more volatile. Engaging in futures, forwards, options, swap agreements or other derivative instruments can expose the investor to additional risk, including illiquidity and counterparty risk and could produce disproportionate gains or losses and may increase volatility and costs in the portfolio. Counterparty risk is the risk that the other party to the agreement will default at some time during the life of the contract. Derivatives can give rise to a form of leverage. Leverage creates special risks including potential interest rate risks and the likelihood of greater volatility of net asset value and market price of the fund's securities. The use of derivatives carries the risk of the underlying instrument as well as the derivative itself and may not be successful, resulting in losses to the fund, and the cost of such strategies may reduce the fund's returns. Purchasing and writing options are highly specialized activities and entail greater than ordinary investment risks. The successful use of options depends in part on the ability of the manger to manage future price fluctuations and the degree of correlation between the options and securities markets. No assurance can be given that such judgments will be correct. Options are subject to sudden price movements and are highly leveraged, in that payment of a relatively small purchase price, called a premium, gives the buyer the right to acquire an underlying security interest that may have a face value greater than the premium paid.

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. In addition, there can be no assurance that a manager that uses these strategies will be successful or that a manager will not deviate from its stated investment strategy and not employ other investment techniques in an effort to meet the fund's investment objective. All investing involves risk including the possible loss of principal.

Private equity funds are complex, speculative investment vehicles that are not required to provide investors with periodic pricing or valuation and are not subject to the same regulatory requirements as mutual funds. An investment in a private equity fund involves the risks inherent in an investment in securities, as well as specific risks associated with limited liquidity, the use of leverage and illiquid investments. They do not represent a complete investment program.

Privately offered real estate funds include the risks inherent in an investment in securities, as well as specific risks associated with investments in real estate, limited liquidity, the use of leverage, arbitrage, short sales, options, futures, derivative instruments, investment in non-U.S. securities, "junk" bonds, and illiquid investments.

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

Other risk considerations

Commodities: Exposure to the commodities markets may subject an investment to greater share price volatility than an investment in traditional equity or debt securities. The commodities markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. 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. Investing in physical commodities, such as gold, exposes a portfolio to other risk considerations such as potentially severe price fluctuations over short periods of time and storage costs that exceed the custodial and/or brokerage costs associated with the portfolio's other holdings.

Currency: Currency risk is the risk that foreign currencies will decline in value relative to that of the U.S. dollar. Exchange rate risk between the U.S. dollar and foreign currencies may cause a portfolio to decline. 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.

Equity investments are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

Fixed-income securities: Investing in fixed-income securities involves certain risks, such as market risk if sold prior to maturity and credit risk, especially if investing in high-yield bonds, which have lower ratings and are subject to greater volatility. All fixed-income investments may be worth less than original cost upon redemption or maturity. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment.

Municipal bonds offer interest payments exempt from federal taxes, and potentially state and local income taxes. These bonds are subject to credit risk and potentially the Alternative Minimum Tax. Quality varies widely depending on the specific issuer.

Foreign securities: Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuations, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Master limited partnerships (MLPs): MLPs involve 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.

Real estate: There are special risks associated with an investment in real estate, including the illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Small- and mid-capitalization stocks: The prices of small- and mid-cap 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: Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Market Research and Advice for Investors

Wells Fargo Investment Institute, a registered investment advisor and wholly-owned subsidiary of Wells Fargo & Company, has some of the industry's top investment strategy, research and alternative investment professionals dedicated to delivering the highest quality investment expertise and advice to help our clients manage risk and succeed financially.

For assistance with your investment planning or to discuss the points in this report, please talk to your investment professional.

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