

Intuitive Investor: Creating and Maintaining a Strategically Allocated, Disciplined, and More Intuitive Investment Approach



Key Takeaways

- » *Buying low and selling high sounds easy enough, but when emotions become involved and there is no plan, successful investing is not easy and often is counterintuitive in nature.*
- » *Successful investing requires discipline and ongoing risk awareness and management; it requires matching an investor's objectives, time horizon and risk tolerance with the right plan and mix of investments.*
- » *The **Intuitive Investor**[®] investment program combines digital investing technology with professional advice; it uses a disciplined portfolio management process tailored to investors' investment objectives; it benefits from ongoing guidance from the Wells Fargo Investment Institute and other value-added features to make the overall process simpler and more intuitive.*
- » *This report helps investors understand how their **Intuitive Investor** portfolios are created, managed, and chosen for them.*

Wells Fargo Investment Institute ("WFII") is **only** responsible for providing model recommendations to various affiliated Wells Fargo Advisors. The Intuitive Investor portfolios are managed on a fully discretionary basis by the affiliates.

Investment and Insurance Products are:

- **Not Insured by the FDIC or Any Federal Government Agency**
- **Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate**
- **Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested**

At the Core of An Intuitive Investor Portfolio

Intuitive Investor portfolios seek to provide a longer-term-focused, optimally diversified, and cost-effective approach to investing. The recommended asset allocation for an investor's portfolio is based on specified investment objectives, risk tolerance and time horizon as indicated in responses to the *Intuitive Investor* questionnaire. The asset allocation and portfolio management approach is based on foundational principles of successful investing that have been tested over time and that stress the importance of maintaining sound:

- **Investor Behaviors:** Through maintaining discipline and limiting emotionally driven reactions through an established, consistent, and appropriately longer-term-focused investment approach
- **Investment Strategies:** Focused on ensuring ongoing prudent diversification, risk management, and the creation of efficient and cost-effective investment portfolios

While conceptually simple, in practice this can be systematically and emotionally hard. *Intuitive Investor* seeks to make the process easier by:

- » Helping investors determine the right portfolio for them based on their stated goals, risk tolerance and time horizon
- » Constructing efficiently allocated portfolios through the combined quantitative (analytical science) and qualitative (the more subjective and forward-looking) expertise of the Wells Fargo Investment Institute
- » Seeking to maintain discipline through a longer-term-focused approach and keeping investors informed to help them do the same
- » Using traditional low-cost exchange-traded funds (ETFs) that seek to track market-weighted indexes blended with a newer breed of ETFs that apply alternative methodologies to systematically weight portfolios in an effort to enhance overall diversification and achieve desired investment exposures
- » Providing additional systematic means to help investors maintain targeted risk/return profiles and add incremental value to portfolios
- » Seeking to address and manage the primary risks to longer-term success
- » Monitoring portfolios and allocations and making changes as warranted based on Wells Fargo Investment Institute's longer-term assumptions and current assessment of the individual portfolio constituents

The following is intended to further highlight the importance of both these foundational principles and specific value-added components and how they are woven together in the creation and ongoing management of *Intuitive Investor* portfolios.

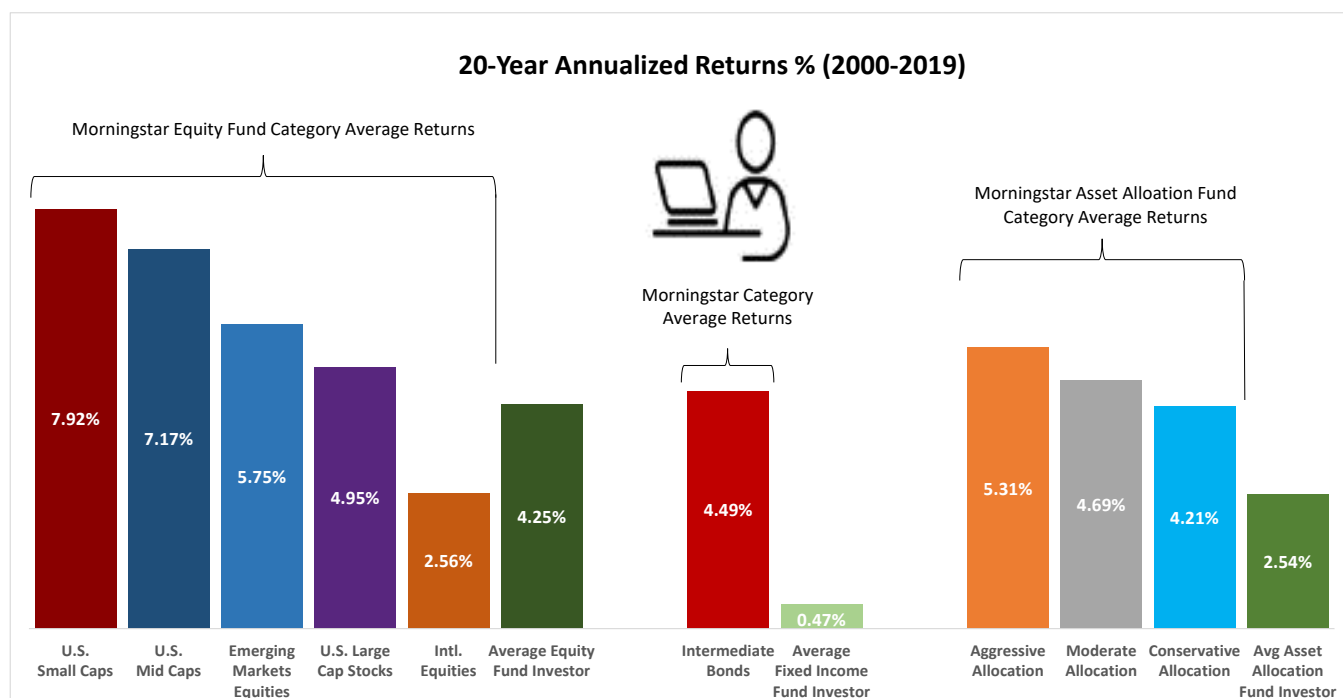
Investor Behaviors: The Primary Detriments to and Determinants of Success

While the importance of diversification and other means to potentially manage risk are regularly preached, what is often overlooked when seeking to successfully employ such investment principles is the primary importance of basic investor behaviors. A lack of understanding or awareness in these realms can lead investors to become their own worst enemy in their efforts to achieve investment success.

Why is this so important—yet hard—in practice? First, while the adage of “buy low and sell high” makes plain intuitive sense, without sufficient understanding and control of their emotions, most investors tend to do the opposite. Simply put, as a result of fear and regret, we believe most investors are generally more apt to sell investments that have lost money or recently have come down significantly in price and buy more of what seems to have been working but at now substantially higher prices.

The following illustration helps depict the potential cost of such poor investment timing. The chart compares long-term Morningstar category average returns for varied asset class and asset allocation funds to the average equity, fixed income, and asset allocation fund investor returns (the green bars) reported by DALBAR, a financial services and market research firm. The average investor returns include the timing impact of switching investments based on past performance (buying high and selling low) over the indicated period. In contrast, the fund category average returns helps represent the average results achieved through more consistent adherence to a given investment strategy or asset allocation approach.

The Potential Cost of Common Investor Behaviors



Sources: Morningstar Direct and DALBAR, Inc. Chart is for illustrative purposes only and does not predict or depict the performance of any investment or the likelihood of achieving any return on an investment. The asset classes shown may not perform in a similar manner in the future. **Past performance is no guarantee of future results. Morningstar Categories:** Each Morningstar Category Average reflects a universe of funds with similar investment objectives. The Morningstar Category Average is the average return for the current peer group based on the returns of each individual fund within the group for the period shown. This average assumes reinvestment of dividends and capital gains, if any, and excludes sales charges and the effect of taxes on an investment. **DALBAR:** The average investor

returns for the indicated 20-year period are reported in DALBAR's most recent annual study on investor behavior (Quantitative Analysis of Investor Behavior). The study's average equity, fixed income, and asset allocation fund investor returns are based on data supplied by the Investment Company Institute and the changes in aggregate mutual fund assets after excluding sales, redemptions and exchanges. The calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. The average equity, fixed income and asset allocation fund investor returns are determined by calculating the investor return dollars as a percentage of the net sales, redemptions and exchanges for the period.

To combat this reflexive/emotional behavior requires discipline and knowledge with respect to investment time frames, how portfolios are constructed, what the investments are intended to do and under what circumstances, and what may lead to increased risk or opportunities based on recent price movements and current valuations. Without such context/knowledge to help provide discipline, investors are often prone to act on emotion, often selling securities or portions of portfolios before they recover (selling low) and buying securities or market segments at or near their peaks (buying high). From initial portfolio recommendation and through ongoing longer-term-focused asset allocation, diversified investment selection, and other systematic features, much of the *Intuitive Investor* process is geared toward seeking to avoid common detrimental investor behaviors.

Investment Strategy: Determining the Right Portfolio

To further help overcome common investor weaknesses, it is important to keep overall goals in mind. For most investors, their primary goals often are longer-term in nature (for example, investing for retirement, college education, or other larger expenses that will occur beyond just the next few years). If primary investment goals are indeed longer term in nature, so should be the framework through which investments are considered. Through a disciplined and longer-term-focused approach, what is the Achilles' heel for many investors can potentially become a strength by not overreacting to shorter-term events. The primary goal of long-term strategically allocated investment portfolios is to stay aware of longer-term goals, not overreact, and let systematic rebalancing and dollar cost averaging (more on these topics later) help accentuate efforts to buy low and sell high and potentially compound returns over time.

However, before seeking to accomplish these aims, investors must first determine which long-term strategy is right for them. This is where the *Intuitive Investor* program can help. Based on responses to select questions and given an investor's long-term goals, time horizon and risk tolerance, the *Intuitive Investor* program will provide a recommended long-term (strategic) asset allocation focused on one of the following primary goals:

- **Generating Current Income:** These investors place emphasis on current investment income generation and/or generally reduced risk exposures. These allocation strategies put greater emphasis on assets that typically provide relatively higher levels of current income potential through either interest or dividends. Investors with a preference for higher levels of current investment income potential may include those in retirement or other investors wanting to supplement their current income sources. With a greater focus on income, these allocations generally will have higher exposures to fixed-income investments. Based on the allocations, these strategies also typically experience lower total returns (combination of income generation and capital growth) but also lower volatility than those with more equity exposure. As a result, these strategies also may be appropriate for investors with generally lower risk tolerances.
- **A Balance of Long-Term Growth and Current Income:** These investors seek a blend of current income and capital appreciation and/or more balanced risk profiles with respect to the mix of equity and fixed-income investments. In addition to the general risk levels associated with these allocations,

the portfolios may appeal to investors who are seeking some level of enhanced current income generation but also significant longer-term growth potential in an effort to more fully combat inflation or meet other longer-term capital needs.

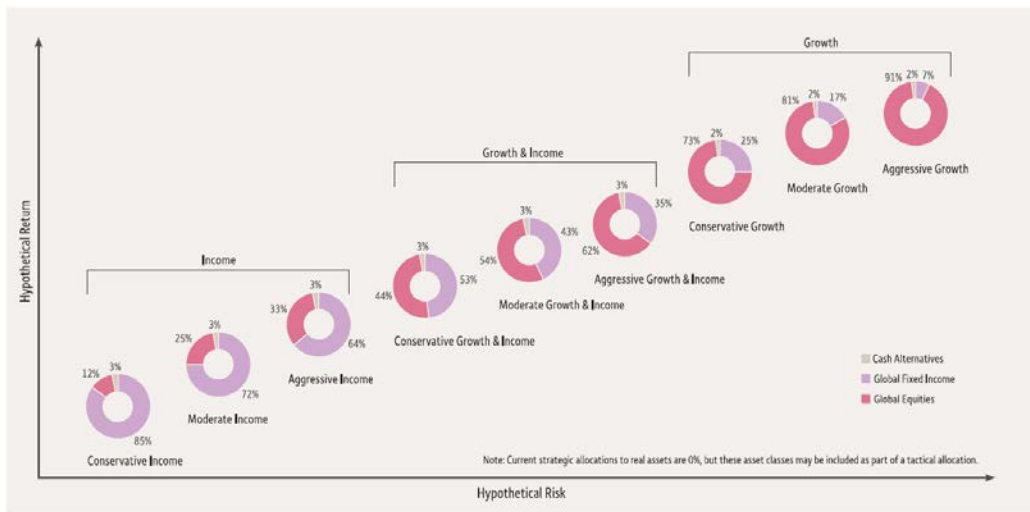
- **Long-Term Capital Growth:** Investors with this primary goal generally have little or no need for their investments to provide a current income stream and instead are focused mainly on further growing assets for future use and wealth generation. With the focus on capital appreciation, the allocations for these strategies are skewed more toward equities but with a full array of the asset exposures (including varied levels of fixed income) with an aim to further enhance diversification and to seek to modify portfolio risks as needed.

For each of these basic strategy orientations (income, growth and income, and growth), there are conservative, moderate, and aggressive options to make sure the strategy being employed is right for a given investor with respect to both the basic intent and relative risk profile. The questions answered when enrolling in the *Intuitive Investor* program help determine which strategy may be appropriate based on stated investment goals, time horizon and risk tolerance.

An investor's indicated time horizon (that is, over what timeframe or when they plan to start using proceeds from their investments for their identified goals) will also affect the choice of strategy. The *Intuitive Investor* program is based on longer-term assumptions for the potential risks and returns of various mixes of investments. It is understood that markets will be up and down along the way and that a long-term time horizon often is needed in an effort to achieve intended investment results. Thus, if the indicated timeframe for the use of a significant portion of an investment portfolio is five years or less, the recommended allocation will be shifted toward a more conservative offering than otherwise would have been recommended. If, even over this shorter period, this allocation seems contrary to the risk the investor intended to take, investors may want to reevaluate their responses to the *Intuitive Investor* questionnaire.

While the recommended strategy is intended to be most appropriate for an investor's current investment goals and risk profile, it also is important to keep in mind that, over time, circumstances will change and goals or willingness to accept risks (for example, when nearing retirement) may need to be reconsidered. As investors' situations change—and at least once a year—investors should review and, as necessary, modify responses to the *Intuitive Investor* questionnaire. In response to meaningful changes, a new asset allocation strategy may be recommended and implemented with the investor's approval.

Which Portfolio Is Right?



Source: Wells Fargo Investment Institute. Chart is conceptual and does not reflect any actual returns or represent any specific asset classifications.

Diversification and Discipline: The Inherent Benefits and Interdependence

In addition to striving for certain return goals, the investment diversification embedded within a recommended allocation is intended to help manage risk¹. There are, of course, numerous stories of tremendous wealth creation and destruction associated with very concentrated holdings or asset exposures. However, given such extreme potential outcomes and in consideration of all the time and effort that goes into creating wealth, most investors will find it highly imprudent to put all or most of their “eggs” into just one or even a few baskets. Within *Intuitive Investor*, this is addressed by maintaining exposure to a broad array of global equity and fixed-income asset classes in professionally managed portfolios overseen by the investment strategists and portfolio managers from the Wells Fargo Investment Institute. Within each asset class, diversification is further accentuated by investing in a pool of underlying securities through the use of specifically selected ETFs.

Asset classes are groupings of investments based on similarities in their basic characteristics and combined long-term risk/return profiles. For example, within domestic equities, stocks often are grouped by size into large, midsize, and smaller companies. The following provides the varied equity and fixed-income asset classes used within *Intuitive Investor* portfolios.

Intuitive Investor Asset Classes

Equities	Fixed Income	Real Assets
U.S. Large Caps	Domestic Investment Grade	Global Real Estate (REITs)
U.S. Mid Caps	Emerging Market Debt	
U.S. Small Caps	Domestic High Yield	
Developed International	Developed International	
Emerging Markets		

¹Although diversification strategies are investment methods used to help manage risk, they do not guarantee investment returns or eliminate risk of loss.

While the investment outlook employed by *Intuitive Investor* remains long term in nature, the varied asset allocations are reassessed annually by the Wells Fargo Investment Institute. Based on these assessments, targeted portfolio allocations are adjusted as warranted to incorporate evolving backward-looking data and forward-looking diversification and risk/return assumptions for each asset class. With the long-term focus and diversified strategic asset allocations employed by *Intuitive Investor* portfolios, an investor sacrifices the potential of being fully invested in the top-performing asset classes at any given point in time, but also avoids the risk of being potentially overexposed to the worst performing asset classes, while benefiting over time from what is intended to be a sufficiently diversified, lower-turnover, and overall more cost- and tax-efficient approach.

The key to this strategy is to maintain discipline while employing additional systematic means to potentially enhance returns (for example, portfolio rebalancing; dollar cost averaging; and, for larger-sized taxable accounts, tax-loss harvesting). While these additional means to seek to enhance returns can be challenging to regularly implement, they are simplified within the *Intuitive Investor* program. However, what can remain challenging is maintaining discipline. This is particularly true during prolonged periods when the top-performing asset classes are more familiar to average investors. For instance, in recent years, the big winner has been larger domestic equities. Because this is a market segment that most investors are more familiar with and that is more regularly reported in the media and via more recognizable/reported market indices, there can be regret for not owning more during times when it performs better than most other asset classes.

The illustration below helps depict the longer-term intent of the strategic allocation approach employed by *Intuitive Investor* portfolios as well as periods when additional discipline may be needed.

Yearly Asset Class and Moderate Growth and Income (MGI) Allocation Returns

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Dev-Mkt Bonds 11.40	Emg-Mkt Stocks 78.51	Small-Cap Stocks 26.85	Emg-Mkt Bonds 8.46	Emg-Mkt Bonds 18.54	Small-Cap Stocks 38.82	Large-Cap Stocks 13.69	Large-Cap Stocks 1.38	Small-Cap Stocks 21.31	Emg-Mkt Stocks 37.28	Treasury Bills 1.82	Large-Cap Stocks 31.49
Inv-Grade Bonds 5.24	High-Yield Bonds 58.21	Mid-Cap Stocks 25.48	Inv-Grade Bonds 7.84	Emg-Mkt Stocks 18.22	Mid-Cap Stocks 34.76	Mid-Cap Stocks 13.22	Emg-Mkt Bonds 1.23	High-Yield Bonds 17.13	Intl Stocks 25.03	Inv-Grade Bonds 0.01	Mid-Cap Stocks 30.54
Treasury Bills 1.77	Mid-Cap Stocks 40.48	Emg-Mkt Bonds 18.88	Dev-Mkt Bonds 5.91	Intl Stocks 17.32	Large-Cap Stocks 32.39	MGI Allocation 6.11	Inv-Grade Bonds 0.55	Mid-Cap Stocks 13.80	Large-Cap Stocks 21.83	Dev-Mkt Bonds -1.68	Small-Cap Stocks 25.52
Emg-Mkt Bonds -10.91	Intl Stocks 31.78	High-Yield Bonds 15.12	High-Yield Bonds 4.98	Mid-Cap Stocks 17.28	Intl Stocks 22.78	Inv-Grade Bonds 5.97	Treasury Bills 0.03	Large-Cap Stocks 11.96	Mid-Cap Stocks 18.52	High-Yield Bonds -2.08	Intl Stocks 22.01
MGI Allocation -24.63	Emg-Mkt Bonds 28.18	Large-Cap Stocks 15.06	Large-Cap Stocks 2.11	Small-Cap Stocks 16.35	MGI Allocation 10.86	Emg-Mkt Bonds 5.53	Intl Stocks -0.81	Emg-Mkt Stocks 11.19	Small-Cap Stocks 14.65	Large-Cap Stocks -4.38	MGI Allocation 19.21
High-Yield Bonds -26.16	Small-Cap Stocks 27.17	MGI Allocation 13.79	MGI Allocation 0.89	Large-Cap Stocks 16.00	High-Yield Bonds 7.44	Small-Cap Stocks 4.89	MGI Allocation -1.88	Emg-Mkt Bonds 10.19	MGI Allocation 13.30	Emg-Mkt Bonds -4.61	Emg-Mkt Stocks 18.42
Small-Cap Stocks -33.79	MGI Allocation 26.75	Emg-Mkt Bonds 12.04	Treasury Bills 0.07	High-Yield Bonds 15.81	Treasury Bills 0.05	High-Yield Bonds 2.45	Mid-Cap Stocks -2.44	MGI Allocation 9.27	Dev-Mkt Bonds 9.92	MGI Allocation -4.76	Emg-Mkt Bonds 14.42
Large-Cap Stocks -37.00	Large-Cap Stocks 26.46	Intl Stocks 7.75	Mid-Cap Stocks -1.55	MGI Allocation 11.78	Inv-Grade Bonds -2.02	Treasury Bills 0.02	Small-Cap Stocks -4.41	Inv-Grade Bonds 2.65	Emg-Mkt Bonds 9.32	Mid-Cap Stocks -9.06	High-Yield Bonds 14.32
Mid-Cap Stocks -41.46	Inv-Grade Bonds 5.93	Dev-Mkt Bonds 6.78	Small-Cap Stocks -4.18	Inv-Grade Bonds 4.21	Emg-Mkt Stocks -2.60	Emg-Mkt Stocks -2.19	High-Yield Bonds -4.47	Dev-Mkt Bonds 1.86	High-Yield Bonds 7.50	Small-Cap Stocks -11.01	Inv-Grade Bonds 8.72
Intl Stocks -43.38	Dev-Mkt Bonds 3.94	Inv-Grade Bonds 6.54	Intl Stocks -12.14	Dev-Mkt Bonds 0.84	Dev-Mkt Bonds -5.08	Dev-Mkt Bonds -2.53	Dev-Mkt Bonds -4.84	Intl Stocks 1.00	Inv-Grade Bonds 3.54	Intl Stocks -13.79	Dev-Mkt Bonds 5.23
Emg-Mkt Stocks -53.33	Treasury Bills 0.15	Treasury Bills 0.13	Emg-Mkt Stocks -18.42	Treasury Bills 0.08	Emg-Mkt Bonds -6.58	Intl Stocks -4.90	Emg-Mkt Stocks -14.92	Treasury Bills 0.26	Treasury Bills 0.82	Emg-Mkt Stocks -14.57	Treasury Bills 2.21

*Sources: Morningstar Direct and Wells Fargo Investment Institute. Index return information is provided for illustrative purposes only. Performance results for the MGI Allocation are hypothetical. Index returns do not represent investment performance or the results of actual trading. Index returns reflect general market results, assume the reinvestment of dividends and other distributions and do not reflect deduction for fees, expenses or taxes applicable to an actual investment nor do they constitute a recommendation to invest in any particular fund or strategy. An index is unmanaged and not available for direct investment. **Hypothetical and past performance does not guarantee future results.** Please see the end of this report for the composition of the MGI Allocation, the risks associated with the representative asset classes and the definitions of the indices.*

The above chart provides the ranking of asset classes by return for each calendar year from 2008 through 2019. With each asset class represented by a color, an investor can easily visualize all the yearly ups and downs of the individual asset classes over the period. As indicated, during the current decade (from 2010 on), U.S. Large Cap Equities generally have performed well. However, what is not seen with this 10-year view is that for much of the prior decade (from 2000 to 2009) this asset class was generally at or near the bottom of the chart, often referred to as the lost decade for U.S. large-cap stocks in general. Some of the other individually higher-risk asset classes (for example, emerging market equities and bonds and small-cap equities) continued to show the extremes of being at the top for some years and the bottom for others.

While such widely oscillating risks and returns can be hard to bear and lead to ill-timed portfolio actions, when optimally blending complementary assets together, investors can generally avoid the extremes and dial into a portfolio with potential returns and volatility that may be right for them based on answers to the questionnaire. The hypothetical MGI Allocation that fluctuates more in the middle of the chart represents a middle-of-the-road allocation with respect to its global equity and fixed-income mix and its avoidance of more extreme ups or downs while still maintaining ongoing exposure to what is potentially driving markets in any given period. If the selection of higher-risk and more growth-oriented allocations is assumed, the potential to achieve higher returns (more in the top half of the chart) for any given period can increase—but so can the level of ups and downs along the way.

On the flipside, by choosing more conservative or income-oriented allocations, the overall return potential decreases but so will the amount of volatility in returns. It is important to keep these trade-offs in mind when assessing portfolios and the individual and collective purpose of its pieces.

Not All Slices Are the Same: What Are the Objectives of the Pieces of a Portfolio Pie?

To help maintain the benefits and required discipline for what is meant to be a long-term asset allocation strategy, it is helpful to think of a portfolio not only as a collection of asset classes or individual investments but also in terms of pieces with distinct individual and combined purpose. For instance:

- The use of Core U.S. Fixed Income for the potential to provide more stability and current income and manage/reduce equity risks, especially during periods of abrupt dramatic downturns
- High Yield and Emerging Market Fixed Income for the potential to enhance income and manage interest-rate risks associated with core domestic bonds
- U.S. Equities to potentially provide capital growth and inflation protection

- International Equities to provide potential for additional growth and manage diversification, economic, and inflation/currency risks

By understanding the roles of the pieces, we believe informed investors will be less likely to abandon longer-term strategies based on interim weakness in one or more of the pieces to the larger puzzle. With *Intuitive Investor*, finding the right mix of pieces to create an overall portfolio that may best match investment goals and preferences is made easier.

The Purpose of the Pieces

Asset Group	Asset Class	Capital Growth	Stability	Current Income	Inflation Protection	Regional Diversification
Equities	U.S. Large Cap					
	U.S. Mid Cap					
	U.S. Small Cap					
	Developed International					
	Emerging Markets					
Fixed Income	Domestic Investment Grade					
	Emerging Market Debt					
	Domestic High Yield					
	Developed International					
Cash	Cash					

Less ← → More

Source: Wells Fargo Investment Institute. The above is intended for illustrative purposes only. The indicated primary purpose of the pieces is based on longer-term assumptions with realization that the relative assessment can vary over shorter-term periods. The relative ability of the different asset classes to provide the indicated characteristics at any one point is a function of current prevailing market trends/drivers, volatility levels, interest-rate differences, currency impacts, and other factors. The characterizations are based on broad asset class assumptions, realizing that individual sectors within the broader asset classes will have varying characteristics. Bear in mind that any assumption made may not materialize or even occur.

The Added Potential Benefits of Portfolio Rebalancing, Dollar Cost Averaging, and Tax-Loss Harvesting

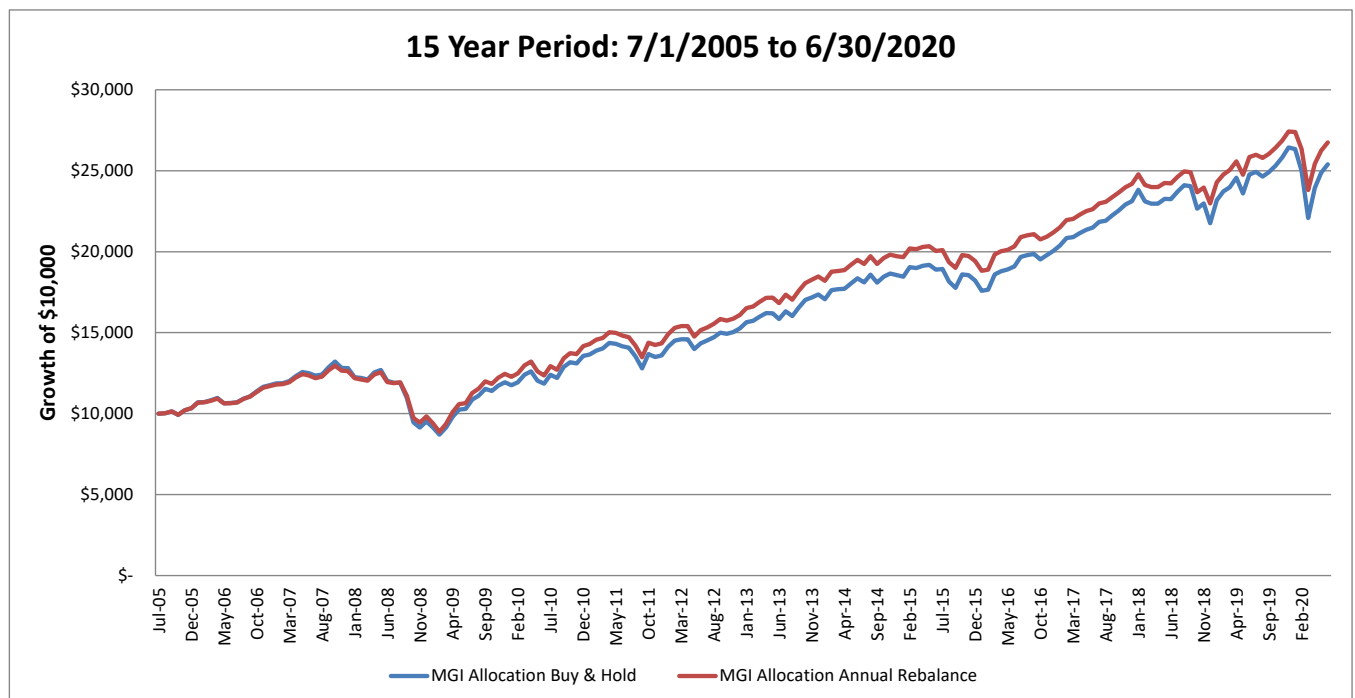
Intuitive Investor accounts seek to accentuate the basic benefits of disciplined strategic asset allocation by providing an efficient and systematic means to rebalance portfolios; reinvest dividends; make ongoing portfolio contributions; and, for taxable accounts (those subject to current versus exempt or deferred taxes on income and capital gains), the potential to harvest tax losses (see important disclosures at end of report on potential risks associated with tax-loss harvesting).

Portfolio Rebalancing

As markets advance and decline and the returns of individual asset classes and investments within portfolios deviate, the overall asset allocation will drift from its original intended design. Such drifting is systematically monitored at the individual account level with allowance for a portfolio to remain within a reasonable tolerance threshold of its target allocations to limit turnover and benefit from potential continued market momentum/trends. However, if the drift exceeds these threshold tolerances, systematic means will be used to initiate and coordinate the necessary purchases and sales to rebalance the portfolio back to its target allocation.

The rebalance process seeks to maintain the longer-term risk/return profile of portfolios, benefit from eventual market reversions, and further facilitate more “buying low and selling high” by systematizing the purchase of assets within portfolios that have declined in price and the sale of those that have risen in price. While rebalancing can impede results during periods when select market segments continue to outperform, the risk-related benefits of maintaining a risk/return profile and asset allocations closer to target should be reflected when eventual market reversals occur as well as over full investment cycles that include both significant up and down markets. The following chart shows the historical 20-year growth of a hypothetical \$10,000 initial investment with the MGI Allocation and the additional potential longer-term benefits of a simple annual rebalance process.

Potential Long-Term Benefits of Rebalancing



Sources: Morningstar Direct and Wells Fargo Investment Institute. Chart is hypothetical and for illustrative purposes only. It assumes a hypothetical initial investment of \$10,000 with no additions or distributions. The asset class returns in the Moderate Growth & Income investment objective are represented by broad-based market indices which have been selected based on their general use as proxies for corresponding asset classes. Performance results for the MGI Allocation are hypothetical. Index returns do not represent investment performance or the results of actual trading. Index returns reflect general market results, assume the reinvestment of dividends and other distributions and do not reflect deduction for fees, expenses or taxes applicable to an actual investment nor do they constitute a recommendation to invest in any particular fund or strategy. An index is unmanaged and not available for direct investment. **Hypothetical and past performance does not guarantee future results.** Please see the end of this report for the composition of the MGI Allocation, the risks associated with the represented asset classes and the definitions of the indices.

For *Intuitive Investor* portfolios, a reassessment and potential change to target allocations will occur annually based on meaningful changes made to the longer-term risk/return assumptions for the underlying asset classes. Apart from this annual review of and potential changes in asset allocation, ongoing monitoring versus target allocations will continue throughout the year with potential threshold-based rebalancing occurring as needed.

Systematic Portfolio Contributions and Dollar Cost Averaging

In addition to already invested capital and its future gains, many investors may seek to regularly add incremental contributions to their portfolios to further build wealth and fund longer-term goals over

time. The *Intuitive Investor* program can help systematize such regular portfolio contributions. When doing so as part of a strategic asset allocation program with systematic rebalancing there is potential to reduce the turnover of previously invested capital and further facilitate buying more assets at relatively lower prices.

When adding a set amount of new funds on a regularly scheduled basis, investors' contributions will be dollar cost averaged over time, meaning investors will be buying more shares of a given investment at lower prices and fewer shares at higher prices to help keep portfolios aligned to its target allocations. By buying more of the asset classes that are down in price relative to the others, the level of trading needed to periodically rebalance portfolios can be reduced, which can help increase overall portfolio tax and risk/return efficiency. *Intuitive Investor* accounts also automate the reinvesting of dividends, offering another way to dollar cost average through additional systematic purchases.¹

Tax-Loss Harvesting

For *Intuitive Investor* taxable accounts, investors also can choose the option to systematically implement tax-loss harvesting whereby investments that decline by a certain amount relative to cost will be sold and replaced with an alternate security. The amount of accumulated losses realized throughout a year may be used to offset realized gains from other securities or ordinary income up to allowable thresholds (please consult your tax advisor. Wells Fargo and its affiliates are not tax or legal advisors). While the securities sold at a loss may result in selling low and altering intended target allocations, the replacement ETFs (though different in terms of provider, the exact underlying constituents and weights and/or reference bookmark) are intended to provide similar broad asset-class exposure and return potential, thus keeping overall intended asset allocation intact.

Selecting Investments: Finding and Blending the Right ETFs for Portfolios

Intuitive Investor portfolios are constructed using ETFs recommended by the Wells Fargo Investment Institute based on the securities' individual and combined merits. ETFs provide exposure to a diverse mix of underlying investments through a single holding. To do so, ETFs are generally more passively or systematically managed to align with and often attempt to replicate the results of a reference benchmark. Passive management indicates that there are no ongoing qualitative assessments used to determine the constituents of a passive ETF—only upfront rules-based and systematic approaches designed to closely and efficiently replicate a given benchmark. Such benchmarks usually are intended to represent the performance of an individual asset class, sub-asset class, or sector. For instance, an ETF attempting to provide risk/return results that approximate those of the broad U.S. large-cap equity market may attempt to closely replicate the results of the S&P 500 Index. The passive equity and fixed-income ETFs within *Intuitive Investor* portfolios are created by third-party investment management firms via the purchase of underlying individual stocks or bonds and/or through the use of derivative securities in an attempt to efficiently replicate a given passive index.

Based on these large-scale transactions and the relatively low turnover and research resources required to track passive indices, ETFs' internal expenses are generally relatively low in comparison with actively managed mutual funds or other managed investments.

¹ A periodic investment plan such as dollar cost averaging does not assure a profit or protect against a loss in declining markets. Since such a strategy involves continuous periodic investments, the investor should consider their ability to continue purchases through periods of declining asset values

Given that ETFs generally have low turnover; are created by nontaxable, in-kind transfers of underlying securities; trade on public exchanges; and typically do not commingle assets with respect to the realization of gains/losses incurred by other fund investors, they can also be relatively tax efficient. While passive ETFs limit investors’ ability to outperform the passive indices they seek to replicate, their noted advantages and the variety of different offerings and potential combinations can provide very compelling investment solutions.

Common ETF Characteristics and Traits

Cost	While the internal fund expenses of ETFs vary, they are generally relatively low in comparison with other investment product structures.
Diversification	ETFs can provide broadly diversified market and asset-class exposures, as well as systematic exposures to specific diversifying market segments or characteristics.
Transparency	ETFs generally provide high levels of transparency, including daily access to underlying holdings and through summary data provided by ETF sponsors.
Return Drivers	Rules-based construction provides greater transparency and consistency in expected return drivers for individual products but with a wide array of product offerings also providing access to a large range of potential exposures and risk/return factors.
Tax Efficiency	In contrast to mutual funds, most capital gains ETF investors experience are due to their own transactions as opposed to the aggregated flows and transactions of other investors. Relatively low turnover can also add to the tax efficiency of ETFs. Although not all types of ETFs are considered tax efficient, many do not distribute capital gains. ETFs continuously offer and sell shares through a daily in-kind purchase and sale process to “authorized participants,” and not to investors. As a result, the ETF does not incur tax when its underlying securities are sold and the investor does not incur capital gains taxes until they sell their shares
Trading	Intraday trading can provide more flexibility and help reduce bid/ask spreads. The additional flexibility and trading aggregation can also help reduce trading costs.
Liquidity	Irrespective of the size of an ETF, liquidity is principally a function of the trading volumes associated with each ETF's underlying holdings and the resulting ability of the sponsor firms and authorized participants ² to create and redeem shares.

While the above traits indicate common ETF characteristics, investors should be aware that not all ETF structures are the same and tax treatments, liquidity levels, trading mechanics, internal costs, and tracking errors versus reference benchmarks can vary by offering and asset class. Although not all types of ETFs are considered tax efficient, many do not distribute capital gains. ETFs continuously offer and sell shares through a daily in-kind purchase and sale process to “authorized participants,” and not to investors. As a result, the ETF does not incur tax when underlying securities are sold and the investor does not incur capital gains taxes until they sell their shares.

Traditional Market-Capitalization-Weighted ETFs

Consistent with commonly reported market indices, most traditional, lower-cost ETFs are commonly constructed based on the relative size of their constituents. Size generally is measured by multiplying a company’s number of equity shares outstanding by its current share price or, for fixed income, the relative size of individual and combined bond issuances. In essence, the bigger the company or bond

²Authorized participants are large institutional investors charged with assisting in the underlying buying and selling of ETF constituents and taking part in the creation and redemption of ETF shares.

issuer, the larger its weight in the index or ETF. As a result, the level of diversification may be less than many investors may think. For instance, within the widely reported S&P 500 Index, many investors may assume that all 500 companies have an equal potential to affect results. However, because the level of impact is based not only on returns but also the relative size of the individual companies, the index's top 50 largest companies can have as much combined impact as the remaining 450.

A Newer Breed of ETFs

While the more traditional passive ETFs offer efficient ways to gain size-weighted market exposures that are more akin to that of the average investor within select markets (based on investment dollars outstanding), there are other ways to systematically weight portfolios that offer the potential to further enhance diversification and long-term risk/return results. A newer breed of ETFs seeks to take advantage of these additional complementary methods to construct investment portfolios. While the costs of these ETFs can be moderately higher in comparison to their more traditional market-capitalization-weighted counterparts, because they still employ systematic rules-based investment methodologies, their fund expenses remain relatively low. Because this newer breed of ETFs seeks to thoughtfully enhance portfolio diversification and available investment opportunities beyond those offered by more traditional broad market exposures (often referred to as market beta), they generally are referred to as smart (or strategic) beta products. However, it is important to note that from both an expense and investment perspective not all such ETFs are created equal.

Traditional vs. Smart Beta ETFs

ETF Type	Primary Return Drivers	Tracking Error vs. Broad Market Indices ³	Potential to Outperform/Underperform Asset Class ³	Cost
Traditional ETFs	Market cap & broad market factors	Lower	Lower ⁴	Lower ⁴
Smart Beta ETFs	Both broad & select market Factors	Higher	Higher	Moderately Higher

³ Broad market indices and asset classes refer to those that the specific ETFs seek to track

⁴ Relative performance will be affected by the benchmarks being tracked, fees, replication methodologies, other and other distinguishing features of individual offerings

How Do Smart Beta ETFs Seek to Enhance Overall Portfolios?

In comparison with traditional market-cap approaches, preferred smart beta ETFs seek to provide investment exposures to specific factors or investment characteristics that academic research has shown can, over time, improve the potential for enhanced returns on an absolute or risk-adjusted basis. It is not just the individual exposures but also the thoughtful combination of these complementary investment factors that can (based on historical results) provide more consistent longer-term risk/return benefits.

Based on this premise, by incorporating the use of specific smart beta ETFs along with core allocations to traditional low-cost ETFs, *Intuitive Investor* portfolios seek cost-effective approaches to systematically weight portfolio holdings to enhance exposures to specific investment factors. Instead

of using market cap, these alternate approaches weight portfolio constituents based on individual and combined exposures to such factors as:

- **Quality:** Greater exposure to higher-quality companies with respect to earnings stability and balance sheet strength
- **Size:** In contrast to market-cap-weighted indices/ETFs, this factor/screen seeks greater exposure to smaller and less recognized companies/opportunities within an asset class
- **Value:** Greater emphasis on investments with relatively attractive valuations
- **Momentum:** Greater emphasis on companies that have and may continue to perform relatively well based on recent price movement
- **Low Volatility:** Greater emphasis on companies/stocks with relatively low price/return volatility and greater risk-adjusted return potential

The smart beta equity ETFs selected for use in *Intuitive Investor* portfolios employ well-articulated and researched multifactor approaches that seek to provide cost-effective systematic exposure to all or most of these factors. Again, it is not just the individual factors but also the specific mix provided by individual and combined ETFs that are of particular importance.

While all of these individual factors have historically provided long-term risk/return benefits, when used in isolation each can experience prolonged periods of underperformance or result in an accumulation of excessive portfolio risks. For instance, emphasizing momentum by itself can lead to growing positions in companies that have already experienced substantial price movement and ultimately may be more susceptible to significant price corrections. However, when paired with an approach that also emphasizes valuation, this risk can be reduced. Likewise, the risks associated with greater exposure to relatively cheap and potentially lower-quality companies as a result of emphasizing valuation can be mitigated by the complementary incorporation of a screen that also seeks higher-quality companies.

The smart beta ETFs recommended by the Wells Fargo Investment Institute for use in *Intuitive Investor* portfolios are managed by industry-leading research and investment management firms with well-resourced and proven expertise in systematic factor-based investing. It is not simply choosing standout individual strategies or ETFs that makes the full difference; it is also how they are blended together from a cost, intended exposure, and overall asset allocation standpoint that provides the full potential impact. Combined with core allocations in more traditional lower-cost and broader-market-oriented ETFs, the complementary use of select smart beta ETFs within *Intuitive Investor* portfolios seeks to enhance overall diversification and potential risk/reward outcomes.

Other Factors Considered When Choosing Equity and Fixed-Income ETFs

At present, the research and product development for value-added, factor-based investing are far less developed for fixed-income asset classes in comparison with equities. As such, the fixed-income ETFs used within *Intuitive Investor* portfolios are generally linked to more traditional issue-weighted indices. However, this remains an area of burgeoning interest and research from which a growing array of potential value-added offerings may emerge and lead to changes in future selections. More generally,

when selecting both equity and fixed-income ETFs, other primary factors considered by the Wells Fargo Investment Institute include an assessment of how well an ETF tracks its reference/selected asset-class benchmark, the relative size of the ETF, the liquidity of its underlying holdings, any additional value-added elements provided by the ETF sponsor, and the level of fund expenses in relation to these combined attributes. In the final assessment, Wells Fargo Investment Institute seeks the lowest-cost ETFs available in relation to these other sought-after characteristics.

Bringing It All Together: Finding and Managing the Right Balance

Throughout the process of recommending and managing *Intuitive Investor* portfolios, the focus remains on balancing return potential and managing risks. With the potential for higher returns being in large part a function of the level of risk employed, it is the continual awareness of and intentional managed balance between the two that will allow an investor to maintain the necessary discipline for longer-term success. This is why responses to the *Intuitive Investor* questionnaire are so important in determining the right mix for a given investor. The recommended solution and overall approach seek to achieve indicated objectives through proven strategies and risk management focused on helping investors:

Determine and Maintain an Optimal Mix of Risk and Return Potential

Periodic market declines and portfolio losses are an inherent part of investing that cannot be fully mitigated or diversified away. However, beyond the broader-scale risks attributed to the markets, individual investor risks come in two basic forms: taking too much risk relative to investment time horizons or financial or emotional wherewithal to do so or not taking enough risk to be able to potentially achieve the level of returns needed to fund longer-term financial goals. Achieving the right balance can potentially help an investor not only achieve desired longer-term results but also maintain discipline by reducing anxiety and the temptation to abandon longer-term strategies during interim periods of market distress. An *Intuitive Investor* portfolio is focused on helping maintain an appropriate balance of potential risk and return by aligning investment objectives, time horizon and risk tolerance with an appropriately allocated, longer-term-focused portfolio and keeping investors informed on the markets and Wells Fargo Investment Institute's longer-term outlook along the way.

Grow and Maintain the Purchasing Power of Investments

A primary risk of not seeking sufficient levels of longer-term growth potential and related risk/return balance is the longer-term impact inflation can have on the purchasing power of portfolios. For younger investors accumulating wealth for retirement or other long-term goals, the time period when portfolio assets will be relied upon to fund expenses can be as long as 20 to 30+ years in the future. Based on continued increases in lifespans, most investors will likely want to plan for similar lengths of time once in retirement. Even with inflation in the 2% to 3% range, the amount of money needed to fund future expenses over such time frames can more than double current dollar costs. As history has shown, there also are times when inflation can spike well above these levels, making it important for investors to not become complacent about longer-term inflation impacts regardless of current levels. *Intuitive Investor* portfolios seek to preserve and further grow the longer-term purchasing power of investments by maintaining an appropriate mix of growth and inflation-hedging assets based on investment objectives, time horizon, and risk tolerance.

Maintain Discipline and Avoid Excessive Timing Risks

Attempts to time markets with large-scale moves in and out of risk assets generally have proven to be a losing and costly game, especially when fueled by investor emotions. On this basis, *Intuitive Investor* portfolios' long-term success will be based on time in the market and not timing the market. To further leverage the benefits of time, *Intuitive Investor* accounts seek to manage the risk and opportunities associated with interim market ups and downs through systematic portfolio rebalancing; the potential for automated portfolio contributions and dollar cost averaging; and, for taxable accounts, tax-loss harvesting.

Remain Prudently Diversified and Manage Potential Concentration Risks

Intuitive Investor portfolios avoid potential concentration risks by maintaining fully allocated portfolios with diversification by asset class, economic sector, geographic region, and the use of varied ETFs with diverse underlying holdings and return drivers. The buildup of potential concentrations through prolonged market momentum is further avoided through systematic portfolio rebalancing.

By seeking to derive the right overall mix; employing consistent, proven strategies; and addressing and managing the primary risks to longer-term success, the *Intuitive Investor* program aims to provide the means, information, and automated features necessary for a more disciplined—and ultimately more successful—investment approach.

Risk Factors

All investing involves risk, including the loss of principal. Different investments offer different levels of potential return and market risk. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stocks** may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Dividends** are not guaranteed and are subject to change or elimination. **Bonds** are subject to interest rate, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic condition.

ETFs are subject to risks similar to those of stocks. Investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. ETFs seek investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no assurance that the price and yield performance of the index can be fully matched. Sector-based ETFs may present more risks than a portfolio that is broadly diversified over numerous sectors of the economy. This will increase the fund's vulnerability to any single economic, political or regulatory development affecting the sector and may result in greater price volatility.

There is no assurance that the use of smart beta strategies will produce excess returns even if such strategies have done so in the past. Using smart beta products as direct substitutes for products tracking more well-known, market-cap indices can be risky, as exposure offered by a smart beta product could differ significantly from that provided by a product tracking a market-cap-weighted index. The risks associated with all smart beta funds include general market risks and systematic tracking error versus benchmarks. Causes for tracking error include trading costs, taxes and management fees. While smart beta ETFs have been around for several years the majority of these funds have not been tested in periods of extreme market stress.

Diversification does not guarantee profit or protect against loss in declining markets.

Moderate Growth & Income Allocation Composition: A diversified benchmark/allocation of fixed income and equity asset classes, including REITs, which are represented by specified asset class indices. The assumed allocation is rebalanced monthly back to the target weights of: 32% Bloomberg Barclays US Aggregate Bond / 21% S&P 500 / 12% Russell Mid Cap / 8% Russell 2000 / 6% Bloomberg Barclays US Corporate High Yield / 6% MSCI EAFE Net / 7% MSCI EM Net / 5% JPM EMBI Global / 3% Bloomberg Barclays US Treasury Bills 1-3 Month.

Tax-Loss Harvesting: Tax-loss harvesting involves certain risks, including, among others, the risk that the new investment could perform worse than the original investment, and that transaction costs could offset the tax benefit. There may also be unintended tax implications. Wells Fargo and its affiliates are not legal or tax advisors. Investors should consult their own legal or tax advisor before taking any action that may involve tax consequences. Tax laws or regulations are subject to change at any time and can have a substantial impact on your individual situation

Quilt Chart – Index Definitions:

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

Investment Grade Fixed Income: Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based index that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS ABS, and CMBS.

Developed Market Ex-U.S. Fixed Income: 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.

High Yield Fixed Income: Bloomberg 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.

Emerging Market Fixed Income: JPM EMBI Global Index is a U.S. dollar-denominated, market cap-weighted index representing a broad universe of emerging market sovereign and quasi-sovereign debt.

U.S. Large Cap Equities: S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value

U.S. Mid Cap Equities: 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.

U.S. Small Cap Equities: Russell 2000® Index 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.

Developed ex U.S. Equity: The MSCI EAFE Index is a widely used measurement of international equity performance. It comprises 21 MSCI country indices that represent the developed markets outside of North America: Europe, Australasia and the Far East. MSCI aims to include in its international indices 85% of the free float-adjusted market capitalization in each country.

Emerging Market Equities: MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance of 23 emerging market countries.

Quilt Chart – Asset Class Risks:

Bonds: Investments in fixed-income securities are subject to market, interest rate, credit/default, liquidity, inflation and other 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. Because bond prices generally fall as interest rates rise, the current low interest rate environment can increase the bond's interest rate risk. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Cash Alternatives: Each type of cash alternative, such as bank certificates of deposits, Treasury bills, and ultra-short bond mutual funds, has advantages and disadvantages. They typically offer lower rates of return than longer-term equity or fixed-income securities and may not keep pace with inflation over extended periods of time.

Foreign: Foreign investing involves risks not typically associated with U.S. investing, including currency fluctuations, political instability, uncertain economic conditions and different accounting standards. These risks are heightened in emerging markets.

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

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