

Wells Fargo Municipal Bond Fund

Overview

General fund information

Ticker: WMBIX

Portfolio managers: Robert J. Miller, Wendy Casetta, and Terry J. Goode

Subadvisor: Wells Capital Management Inc.

Category: Muni national long

Fund strategy

- Uses both bottom-up credit research and top-down macroeconomic analysis
- Seeks to generate excess performance by actively managing the four key elements of total return: duration, yield-curve positioning, sector and credit-quality allocation, and security selection
- Uses a relative-value approach based on extensive credit analysis that seeks opportunities from changing market trends and pricing inefficiencies to generate excess returns

Average annual total returns (%) as of 6/30/19*

	3 month	Year to date	1 year	3 year	5 year	10 year	Since fund inception (10/23/86)
Municipal Bond Fund-Inst	2.18	5.13	6.67	3.21	4.20	6.17	5.54
Bloomberg Barclays Municipal Bond Index	2.14	5.09	6.71	2.55	3.64	4.72	—
Lipper General & Insured Municipal Debt Funds Average	2.27	5.28	6.13	2.31	3.49	4.81	—

*Returns for periods of less than one year are not annualized.

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes a shareholder may pay on a fund. Investment return, principal value, and yields of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted and assumes the reinvestment of dividends and capital gains. Current month-end performance is available at the fund's website, wfam.com. Institutional Class shares are sold without a front-end sales charge or contingent deferred sales charge.

The fund's gross expense ratio is 0.46%. The fund's net expense ratio is 0.46%. The manager has contractually committed, through October 31, 2020, to waive fees and/or reimburse expenses to the extent necessary to cap the fund's total annual fund operating expenses after fee waivers at 0.48% for the Institutional Class. Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses (if any), and extraordinary expenses are excluded from the cap. Prior to or after the commitment expiration date, the cap may be increased or the commitment to maintain the cap may be terminated only with the approval of the Board of Trustees. Without this cap, the fund's returns would have been lower. The expense ratio paid by an investor is the net expense ratio (the total annual fund operating expenses after fee waivers) as stated in the prospectus.

Performance overview

- The fund outperformed its benchmark, the Bloomberg Barclays Municipal Bond Index, for the three-month period that ended June 30, 2019.
- Credit-quality allocation and security selection were the largest contributors to relative performance while duration positioning was a detractor.

Market review

The Federal Reserve (Fed) leaned further into its dovish policy stance in the second quarter. The Federal Open Market Committee (FOMC) kept its policy rate unchanged and signaled that it is open to adjusting the policy rate lower in 2019 should financial conditions require it.

Global trade tensions increased and expectations for a near-term positive resolution to the U.S.-China friction dimmed. Theresa May resigned as the prime minister of Great Britain as her plans for Brexit were rebuffed, increasing the likelihood of a hard exit from the European Union. Iran ratcheted up aggressive actions, destroying a U.S. spy drone in late June. These factors led to lower business confidence and spending, which brought down expectations for near-term U.S. gross domestic product growth.

Expectations for a cut to the Fed's main policy rate rose materially since March, with market-implied probabilities for cuts to the federal funds rate in 2019 now near 100%. This change in expectations provided fuel for a rally in risk assets, with equities rising and pushing yields lower across Treasuries, corporates, high yield, and municipal bonds.

The municipal bond market's performance was supported by highly constructive supply-and-demand technical factors. Twenty-six consecutive weeks of positive net flows into municipal bond funds resulted in more than \$45 billion seeking bonds to buy while municipal bond issuance was muted. This mismatch between subdued new issue supply and strong demand pushed up municipal bond prices. Municipal-to-Treasury yield ratios rose for the front end and intermediate portions of the curve as municipal bonds failed to keep pace with the rally in Treasuries. Ratios fell on the long end. In addition to the macroeconomic forces pressuring yields and the technical factors driving valuations, several notable stories affected municipal bond returns during the quarter, including a rebound of state personal income tax collections in the second quarter after experiencing shortfalls in the first quarter.

(See pages 4–5 for important information.)

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Performance attribution* and strategy

Duration—detractor

- We began the quarter with a defensive short duration positioning after selling into strength with the intent of extending duration closer to neutral as supply/demand seasonal factors materialized during the quarter. Consequently, we tactically extended duration by adding higher-quality, longer-duration municipal debt while remaining short relative to the benchmark.
- The momentum carrying U.S. Treasuries accelerated throughout the second quarter, with investors pricing in cuts to the federal funds rate and lowering their expectations for global growth, resolution to trade issues, and heightened political risks. Municipal bond yields have generally struggled to keep pace when Treasury yields fall rapidly. A defensive duration posture may be prudent as the bond rally ages, yet cash may be deployed tactically to avoid too much liquidity over the summer as technical factors should be supportive in July and August.

Yield curve—modest contributor

- We continued to reduce our barbelled yield-curve positioning, with its curve-flattening bias, in the second quarter. As the municipal yield curve continued to flatten, we favored select key rate exposures with more attractive valuations. Our current yield-curve allocation is underweight the very front end through the 8-year segment, overweight the 8- to 10-year portion, and overweight the very long end.
- The municipal yield curve remains modestly steeper than the Treasury curve but has flattened materially throughout the first half of the year. Key rates appear preferable to a barbell at current flatness.

Quality—contributor

- While we maintained overweights to A-rated and BBB-rated debt, underweights to AAA-rated and AA-rated debt, and out-of-benchmark allocations to non-investment-grade and nonrated credits, we increased exposure to higher-quality bonds as tight credit spreads continued to make a case for reducing our overweight and moving up in quality to prepare for the next period of spread widening. Controlling for duration and curve effects, our overweight to medium- and lower-quality credits was a contributor.
- Lower-rated securities have outperformed more highly rated securities in 2019 and have been supported by the Fed's accommodation and the accompanying rate rally. Strong municipal technical factors offer the climate to reposition away from securities with softer fundamentals as the market struggles to differentiate across the liquidity and credit profile of municipal securities in periods of extreme strength.

Sector—modest contributor

- We continued to be underweight state general obligation (GO) bonds and slightly underweight revenue bonds. Controlling for duration, curve, and quality-allocation effects, contributors included overweights to the special tax and industrial development revenue/pollution control revenue (IDR/PCR) sectors and the state of Illinois and an underweight to state GOs. Detractors included underweights to hospitals and the state of California and an overweight to the water and sewer sector.
- Relative spreads across municipal sectors have become increasingly tight given the strong technical factors overwhelming the municipal market. Investors should exercise caution in the power and dedicated tax sectors. Both have seen outsized rating movements and examples of spread volatility and may experience more in the months ahead.

Issue selection—contributor

- The fund benefited from being overweight zero-coupon debt and debt subject to the alternative minimum tax (AMT). Controlling for duration, curve, and quality- and sector-allocation effects, contributors included selection within the leasing and special tax sectors and the state of Illinois (Metropolitan Pier and Exposition Authority). Detractors included selection within the housing, IDR/PCR, and transportation (Bay Area Toll Authority) sectors.
- Cheapening of municipals relative to Treasuries late in the quarter, concurrent with our view that prior valuations were stretched, may start to open additional areas of value if they persist. Municipals subject to the AMT continue to offer value given that all corporations and most individuals are not subject to the tax.

*Performance attribution is discussed gross of expenses. The gross-of-expenses performance attribution does not reflect the deduction of the fund's expenses as shown in the prospectus.

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Portfolio characteristics

	Wells Fargo Municipal Bond Fund	Bloomberg Barclays Municipal Bond Index
Avg. eff. duration	5.08	5.50
Avg. maturity (yrs.) ¹	18.39	14.11
AMT ²	8.30%	4.70%
30-day SEC yield	2.05%	—

Credit-quality allocation (%)³

AAA/Aaa	12.62	15.35
AA/Aa	33.21	51.39
A/A	26.08	25.02
BBB/Baa	13.43	8.23
BB/Ba	2.51	0.00
B/B	0.58	0.00
SP-2/MIG2	1.47	0.00
A-3/MIG3	0.13	0.00
A-1/P-1/MIG1	3.23	0.00
Not rated	6.72	0.00
Cash & equivalents	0.03	0.00

Sector allocation (%)

GO bonds	18.85	27.83
Insured bonds	0.03	0.29
Prerefunded bonds	3.84	4.76
Revenue bonds	72.77	67.11
Other	4.50	0.00

1. Weighted average time to maturity. 2. Percent of net assets in AMT bonds. 3. The ratings indicated are from Standard & Poor's, Fitch Ratings, and/or Moody's Investors Service. The percentages of the fund's portfolio with the ratings depicted in the chart are calculated based on the total investments of the fund. If a security was rated by all three rating agencies, the median rating was used. If a security was rated by two of the three rating agencies, the lower rating was used. If a security was rated by one of the agencies, that rating was used. Due to rounding, percentages may not add up to 100%. Portfolio characteristics, sector weights, and allocations are subject to change and may have changed since the date specified.

The fund's 30-day unsubsidized SEC yield is 2.05%.

Fund facts

Inception date	10/23/86
Net expense ratio—Inst	0.46%
Assets—all share classes	\$5.06B

Rankings and ratings

Morningstar total return rankings—Institutional Class (as of 6/30/19)

Morningstar Category Muni national long

1 year 50 out of 169

3 year 11 out of 147

5 year 29 out of 131

10 year 7 out of 111

Overall Morningstar Rating TM ★★★★★

The Overall Morningstar Rating, a weighted average of the 3-, 5-, and 10-year (if applicable) ratings, is out of 147 funds in the Muni national long category, based on risk-adjusted returns as of 6/30/19.

Share class availability

Share class	Ticker	Gross expense ratio (%)	Net expense ratio (%)	Contractual expense waiver date
A	WMFAX	0.79	0.75	10/31/20
C	WMFCX	1.54	1.50	10/31/20
Admin	WMFDX	0.73	0.60	10/31/20
Inst	WMBIX	0.46	0.46	10/31/20
R6	WMBRX	0.41	0.41	10/31/20

The manager has contractually committed to waive fees and/or reimburse expenses to the extent necessary to cap the fund's total annual fund operating expenses after fee waivers at 0.75% (A), 1.50% (C), 0.60% (Admin), 0.48% (Inst), and 0.43% (R6). Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses (if any), and extraordinary expenses are excluded from the cap. Prior to or after the commitment expiration date, the cap may be increased or the commitment to maintain the cap may be terminated only with the approval of the Board of Trustees. Without this cap, the fund's returns would have been lower. The expense ratio paid by an investor is the net expense ratio (the total annual fund operating expenses after fee waivers) as stated in the prospectus.

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Benchmark descriptions:

The Bloomberg Barclays Municipal Bond Index is an unmanaged index composed of long-term tax-exempt bonds with a minimum credit rating of Baa. You cannot invest directly in an index.

The Lipper averages are compiled by Lipper, Inc., an independent mutual fund research and rating service. Each Lipper average represents a universe of funds that are similar in investment objective. You cannot invest directly in a Lipper average.

Definition of terms:

30-day SEC yield: The 30-day SEC yield is calculated with a standardized formula mandated by the SEC. The formula is based on maximum offering price per share and includes the effect of any fee waivers. Without waivers, yields would be reduced. The 30-day unsubsidized SEC yield does not reflect waivers in effect. A fund's actual distribution rate will differ from the SEC yield, and any income distributions from the fund may be higher or lower than the SEC yield.

Average maturity: The average maturity represents the weighted average time to maturity of all the debt securities held in the portfolio. A relatively short average maturity results in smaller price fluctuations in response to changes in market rates of interest. A short average maturity subjects the owner of a debt portfolio to the risk that maturing debt will be replaced with debt carrying a lower interest rate. Average maturity is an important consideration for investors who hold bond and money market funds.

Credit-quality ratings: Credit-quality ratings apply to underlying holdings of the fund and not the fund itself. Standard & Poor's and Fitch rate the creditworthiness of bonds from AAA (highest) to D (lowest). Standard & Poor's rates the creditworthiness of short-term notes from SP-1 (highest) to SP-3 (lowest). Ratings from A to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Moody's rates the creditworthiness of bonds from Aaa (highest) to CC (lowest). Ratings Aa to B may be modified by the addition of a number 1 (highest) to 3 (lowest) to show relative standing within the ratings categories. Moody's rates the creditworthiness of short-term U.S. tax-exempt municipal securities from MIG-1/VMIG-1 (highest) to SG (lowest). Credit quality and credit-quality ratings are subject to change.

Duration: Duration is the weighted average of the timing of cash-flow payments from fixed-income securities. Duration is used as a measurement of sensitivity to interest rates.

Yield curve: The yield curve is a graphical representation of fixed-income security yields (usually U.S. Treasuries) at their respective maturities, starting with the shortest time to maturity and sequentially plotting in a line chart to the longest maturity.

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The Morningstar Rating for funds, or star rating, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar risk-adjusted return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% 3-year rating for 36–59 months of total returns, 60% 5-year rating/40% 3-year rating for 60–119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. Across U.S.-domiciled muni national long funds, the Municipal Bond Fund received 5 stars among 147 funds, 4 stars among 131 funds, and 4 stars among 111 funds for the 3-, 5-, and 10-year periods, respectively. The Morningstar Rating is for the Institutional Class only; other classes may have different performance characteristics. The Morningstar absolute ranking is based on the fund's total return rank relative to all funds that have the same category for the same time period. Morningstar rankings do not include the effect of sales charges. **Past performance is no guarantee of future results.**

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Risks: Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds held by the fund. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and their impact on the fund and its share price can be sudden and unpredictable. The use of derivatives may reduce returns and/or increase volatility. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). This fund is exposed to high-yield securities risk and municipal securities risk. Consult the fund's prospectus for additional information on these and other risks. A portion of the fund's income may be subject to federal, state, and/or local income taxes or the alternative minimum tax (AMT). Any capital gains distributions may be taxable.

The views expressed and any forward-looking statements are as of June 30, 2019, and are those of the fund manager and/or Wells Fargo Asset Management. Discussions of individual securities, or the markets generally, or any Wells Fargo Fund are not intended as individual recommendations. Any specific securities discussed may or may not be current or future holdings of the fund. Future events or results may vary significantly from those expressed in any forward-looking statements; the views expressed are subject to change at any time in response to changing circumstances in the market. Wells Fargo Asset Management disclaims any obligation to publicly update or revise any views expressed or any forward-looking statements.

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

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