

# FundSource®

## FundSource Product Guide

The FundSource program offers investors access to professionally managed portfolios of mutual funds. Portfolios are constructed by Wells Fargo Investment Institute from a recommended universe of more than 650 mutual funds selected by Wells Fargo Investment Institute. Mutual funds on the recommended list have been carefully selected based on an extensive evaluation of the fund's management team, investment process, and performance. The cornerstone of the portfolio construction process is asset allocation guidance. Optimal Blend portfolios are constructed to provide investors access to a broad range investment strategy designed for various risk/return profiles. Your financial professional is available to help you determine the most appropriate Optimal Blend portfolio strategy that best fits your investment goals and tolerance for risk. FundSource offers more than 60 predefined Optimal Blend portfolios, or investors may customize allocations of funds using research recommended funds.

### Are these portfolios right for you?

The FundSource portfolios are designed for investors who:

- Want a diversified portfolio of mutual funds that fits their personal investment goals
- Value the expertise offered by professional investment managers in constructing a portfolio and managing it using a disciplined investment strategy
- Appreciate a program that includes active portfolio management, ongoing analysis on mutual funds, automatic rebalancing, and quarterly performance monitoring

### A Sophisticated Approach to Mutual Fund Investing

Many investors own mutual funds to pursue their investment goals. Too often, though, they end up with too many or too few, ones that don't work well together, or ones that don't make sense given their circumstances. FundSource may be an answer to those problems. With FundSource, you get access to carefully constructed blends of mutual funds based on the analysis and advice of investment professionals. It is a program designed with the types of services and features previously available primarily to institutional and ultra-high-net-worth investors.

FundSource provides a framework for establishing an investment strategy that considers your financial goals, tolerance for risk, and your willingness to adjust as your life changes. Your financial professional will ask questions and take you through a process to create an investment plan tailored to your needs.

## Professional Portfolio Management

FundSource offers two alternative approaches to asset allocation strategy. One is based on a strategic (long-term) asset allocation and the other on a more dynamic (short- to intermediate-term) asset allocation strategy. Both investment approaches are based on time-proven investment disciplines implemented by many institutional investors to help remove emotional decisions from investing. The asset allocations for the FundSource program follow the Wells Fargo Investment Institute Global Portfolio Management's recommended asset allocations, which are based on their investment outlook for the global economy.

Analysis and monitoring of the mutual funds is provided by Wells Fargo Investment Institute. The guidance and research of Wells Fargo Investment Institute is used to select Mutual Funds to construct the FundSource portfolio models. FundSource leverages investment perspectives of world-class institutional money managers and constructs portfolios to take advantage of opportunities based on insight and extensive research.

## Optimal Blends Portfolios Targeted to Meet Specific Needs

Since all investments entail risk, each portfolio is designed to line up with particular risk tolerance levels and investment horizons. In keeping with its highly personalized approach, FundSource offers more than 60 Optimal Blends portfolios, each of which contains specific asset allocations and mutual fund mixes to meet investors' individual objectives.

The cornerstone of the FundSource program is the extensive analysis process used by the portfolio managers of Wells Fargo Investment Institute when selecting mutual funds for these portfolios. The group evaluates a broad range of funds in all asset classes and investment styles to identify funds that perform differently under varying market conditions. The portfolio managers then use quantitative\* and qualitative measures† to select unaffiliated and what it considers to be "best of breed" funds for these classes and styles. The FundSource analytical process focuses both on the merits of the individual funds and on how the various funds complement one another.

**\* Quantitative analysis seeks to understand behavior by using mathematical and statistical modeling, measurement, and research. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically.**

**† Qualitative analysis uses subjective judgment based on nonquantifiable information such as management expertise, industry cycles, strength of research, and development and labor relations.**

## FundSource Asset Allocation Models

FundSource also offers several portfolios, described here, that address particular circumstances. These include tax-managed asset allocation portfolios for tax-sensitive investors, multi-asset income portfolios for investors seeking current income, and global opportunity portfolios for investors seeking a more dynamic asset allocation and opportunistic investment approach.

### Classic Optimal Blends

FundSource Standard Optimal Blends are the traditional series of discretionary FundSource portfolios built based on a long-term strategic allocation strategy that is aligned with a 10-to-15-year investment horizon based on Wells Fargo Investment Institute's Capital Market Assumptions. Portfolios are broadly diversified using world-class mutual funds selected by Global Portfolio Management.

### Tax Managed Optimal Blends

FundSource Tax Managed Optimal Blends are asset allocation portfolios that offer tax-sensitive investing. \* The mutual funds selected for the Tax Managed blends, largely tax-advantaged investment grade bond funds and high yield municipal bond funds, have demonstrated the ability to minimize capital gains, and historically have experienced lower dividend distributions and negative cash flows. Wells Fargo Investment Institute's portfolio managers also favor funds that have a bottom-up approach (stocks evaluated and held based on their own merit) to investing rather than a top-down approach (stocks evaluated first by the overall economic picture and then by sectors or industries) which could result in greater turnover. Since tax efficiency is not typically a concern in tax-deferred accounts, the Tax Managed Optimal Blends are not recommended for IRA or ERISA accounts.

### Alternative Strategy Alternative Optimal Blends

FundSource Alternative Strategy Optimal Blends offer investors the potential opportunity to reduce volatility and improve capital preservation through alternative investments. The goal of these strategies is to further enhance portfolio diversification, reduce overall portfolio volatility, and better manage capital in periods of market distress, thereby offering the potential for enhanced risk/reward outcomes over a full market cycle. Mutual funds selected will invest in or employ the use of hedged equity positions, arbitrage, global macro strategies, currency, and managed futures in order to seek to reduce volatility.

### Core American Optimal Blends

Core American Optimal Blends are a series of discretionary FundSource portfolios in which your investment is diversified across asset classes, investment styles, and professional money managers in accordance with your risk parameters and investment goals. The American Funds® family of mutual funds constitutes more than 50% of the assets in the Core American Optimal Blends. The other 50% is made up of other premier fund families whose core competencies lie in different asset classes or investment styles where American Funds might not have significant exposure.

## **FundSource Foundations Optimal Blends**

FundSource Foundations is a lower minimum series of discretionary FundSource portfolios focused on the foundational elements of portfolio management. The minimum initial investment is \$10,000. The portfolios are built based on the long-term strategic guidance from Wells Fargo Investment Institute, but with opportunistic tilts (tactical overweight/underweight) based on Wells Fargo Investment Institute's shorter-term (6 to 18 months) views. As with other FundSource series, the portfolios consist of actively managed mutual funds and are available in all nine investment objectives.

## **Multi-Strategy Income Optimal Blends**

The Multi-Strategy Income portfolios are part of a series of models designed to meet the needs of investors seeking meaningful current income combined with the potential for growth of income and capital over time. The blends invest across a diversified global universe of income-oriented mutual funds that incorporate both traditional and non-traditional sources of income, such as energy master limited partnerships (MLPs), bank loans, real estate investment trusts (REITs), and infrastructure- and dividend-focused global equity investments. Additionally, the two blends employ a dynamic, multi-strategy approach that leverages flexible allocation funds to accentuate yield and manage risk.

## **Capital Stability Optimal Blend**

The Capital Stability Optimal Blend is a low volatility diversified income-oriented strategy that uses a multiple asset class approach to provide investors with preservation of capital and stability of capital.

While capital stability is the paramount objective, the portfolio seeks a modest level of current income. The strategy will primarily invest in lower volatility investment grade fixed income investments and cash alternatives but may allocate a portion of the assets to managers that employ more flexible allocation strategies that include non-traditional income and alternative investments in an effort to enhance yield, increase diversification, and reduce downside volatility. The blend may be appropriate for investors seeking stability of capital over a short-term investment horizon with current income/yield a secondary consideration.

## **A Greater Level of Customization**

Within our FundSource program, you and your financial professional have the ability to work together to create a Customized Blend of mutual funds that can be tailored to a specific client investment policy. In a Customized Blend, mutual funds are selected from the Wells Fargo Investment Institute's Recommended Fund List of more than 650 institutional- or advisory-share class mutual funds.

## The Consulting Process

FundSource offers a highly personalized approach, tailoring an investment plan to your unique needs. The program utilizes a four-step process to help investors pursue their goals:

Identify investment objectives. Your Financial Advisor will first help you identify your goals as they relate to your investment plan and timeframe. This information will determine what kind of mutual fund portfolio you need to develop.

Establish risk tolerance. The next step involves understanding your risk tolerance. Virtually every investment involves some degree of risk. In general, investors who have been willing to tolerate wider swings in the value of their investments have enjoyed higher long-term returns—so investors seeking higher returns should be comfortable with a higher level of risk.

Set investment strategy. Once you have agreed on your goals and risk tolerance, your Financial Advisor will help you establish an investment strategy based on asset allocation\*. Asset allocation—the principle of diversifying your investments across stocks, bonds, cash, and their subclasses—helps match the appropriate FundSource portfolio with your investment needs.

Monitor portfolio. Each quarter, FundSource provides you with a comprehensive progress review that's concise and easy to understand. Funds are continually evaluated to assure style consistency and discover opportunities. The program includes automatic rebalancing to maintain the portfolio's initial target allocation and diversification strategy.

**\*Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns.**

## Benefits of a Managed Portfolio

By appointing experienced investment professionals to manage your portfolio and rebalance your investment mix when necessary, you free yourself from the time-consuming task of choosing and actively monitoring investments. Since decisions regarding your overall asset allocation are made by Wells Fargo Investment Institute Global Portfolio Management, you benefit from the experience, diversification, and in-depth analysis applied to all FundSource Optimal Blends. The program also features automatic rebalancing and quarterly reports, with results compared to select benchmarks.

## FundSource Summary

- Professionally managed portfolios of mutual funds from top institutional mutual fund families
- *FundSource* program provides a disciplined framework for implementing an investment strategy based on your goals and risk tolerance
- Professional portfolio management includes asset-allocation decisions, mutual-fund selection and ongoing portfolio monitoring, and active account management that includes periodic portfolio rebalancing

### Next Steps

To learn more about how FundSource Optimal Blend portfolios can be tailored to your investment goals, talk to your Financial Advisor today.

## Disclosures

All investing involves risks, including the possible loss of principal. There can be no assurance that any investment strategy will be successful or that a fund will meet its investment objective. Investments fluctuate with changes in market and economic conditions and in different environments due to numerous factors some of which may be unpredictable. An investment in a mutual fund will fluctuate and shares, when sold, may be worth more or less than their original cost. Each asset class has its own risk and return characteristics. Some of the risks associated with an investment in the program include:

Equity securities 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.

Investments in fixed-income securities are subject to market, interest rate, credit, 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. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. 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.

Bank loans are subject to interest rate and credit risk. They are generally below investment grade and are subject to defaults and downgrades. These loans have the potential to hedge exposure to interest rate risk but they also carry significant credit and call risk. Call risk is the risk that the issuer will redeem the issue prior to maturity. This results in reinvestment risk, which means the proceeds will generally be reinvested in a less favorable environment. Bank loans are difficult to value, have long settlement times, and are relatively illiquid. As a result, the Fund could face liquidity challenges.

The commodities markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or other factors affecting a particular industry or commodity.

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

Mutual funds that invest using alternative strategies are more complex investment vehicles which generally have higher costs and substantial risks. They tend to be more volatile than other types of mutual funds and present an increased risk of investment loss. Relative to broad, long-only traditional asset class mutual funds, alternative mutual funds may employ more complex strategies, investments, and portfolio structures. In doing so, some of these strategies may expose investors to additional risks, including but not limited to the following: short selling, leverage risk, counterparty risk, liquidity risk, commodity price volatility risk, and/or managed futures roll yield risk.

Investments in infrastructure companies expose an investment to potentially adverse economic, regulatory, political, and other changes affecting such companies. Infrastructure companies may also be subject to various other risks, including governmental regulations, high interest costs associated with capital construction programs, costs associated with compliance and changes in environmental regulation, economic slowdown and surplus capacity, competition from other providers of services, and other factors.

An investment that is concentrated in energy related MLPs is subject to the risks of investing in MLPs and the energy sector. MLPs are subject to numerous significant risks, such as volatility associated with the use of leverage; volatility of the commodities markets; market risks; supply and demand; natural and manmade catastrophes; competition; liquidity; market price discount from NAV and other material risks. A downturn in the energy sector of the economy, adverse political, legislative or regulatory developments, or other events could have a larger impact on a portfolio that concentrates in the energy sector.

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

The prices of small- and mid-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.

Global Manager Research (GMR) uses qualitative and quantitative methods to assess investment products to develop due diligence opinions. In general, due diligence opinions entail a thorough assessment of an investment product and the assignment of one of five assessment recommendations: Recommended, Watch, Supported, Sell or Sunset. GMR may change an investment product's assessment recommendation from time to time. GMR due diligence assessments are generally described as: "Recommended", where assessment criteria indicate an investment product is in good standing and GMR has high conviction in it. "Recommended: Watch Level I", where an event has occurred and is being evaluated. Pending the outcome of the evaluation, GMR maintains its recommendation for new purchases. "Recommended: Watch Level II", where an event has occurred that may have the potential to impact longer term investment prospects and is being evaluated. Pending the outcome of the evaluation, GMR maintains its recommendation for new purchases. "Watch Level III", where an event has occurred that has elevated concern regarding this product's longer term investment prospects. GMR recommends restricting new flows into the product until our evaluation is complete. "Supported" where a product is in good standing and is considered acceptable to own. "Sell" where assessment criteria indicate an investment product is recommended for exit in the near-term; and "Sunset" where assessment criteria indicate an investment product should be exited over an appropriate period of time as determined by the client's specific situation.

The fees for the FundSource program include advisory services, performance measurement, transaction costs, custody services and trading. The fees do not cover the fees and expenses of the underlying funds and customary brokerage charges may apply to non-program assets. The standard fee schedule, which is negotiable, is based on account size and an assumed active equity portfolio. Please carefully review the Wells Fargo Advisors advisory disclosure document for a full description of our services, including fees and expenses. Advisory accounts are not designed for excessively traded or inactive accounts and are not appropriate for all investors. The minimum account size for this program is between \$10,000 and \$25,000 depending on model selected.

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