WELLS FARGO
INVESTMENT INSTITUTE

Global Investment Strategy

Our 2016-2017 Capital Market Assumptions

August 15, 2016

Tracie McMillion, CFA®
Head of Global Asset Allocation

Chris Haverland, CFA®
Global Asset Allocation Strategist

Veronica Willis
Global Research Analyst

Key Takeaways

» *Our Capital Market Assumptions (CMAs) reflect trends we expect to play out over the next 10 to 15 years.*

» *The 2016-2017 CMAs reflect lower inflation and cash return assumptions, and are lower than historical averages for most asset classes.*

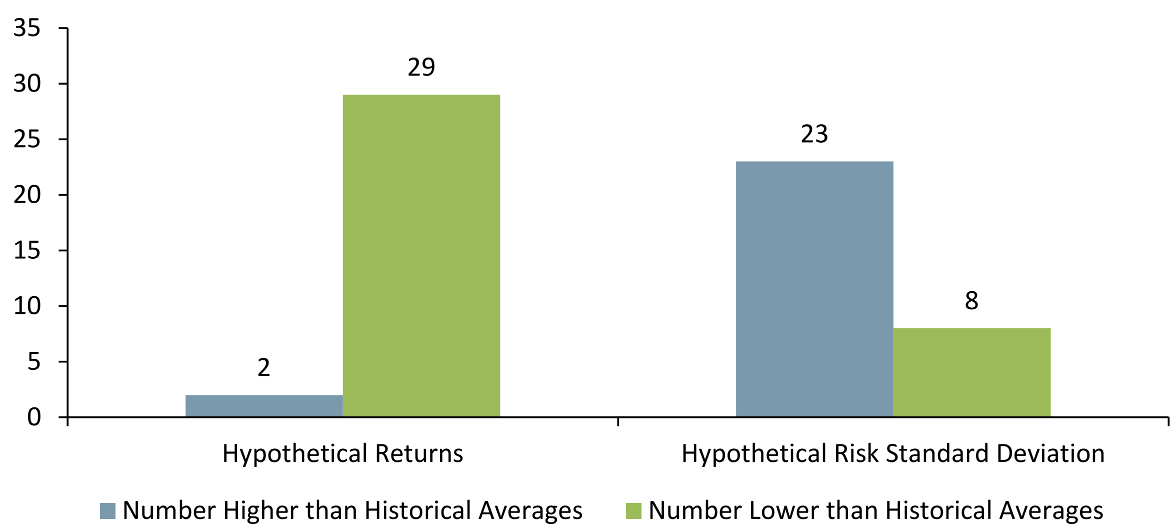
What it may mean for investors

» *The actual return on an individual asset class may not follow long-term averages, but is more likely to fluctuate around the averages.*

Capital Market Assumptions vs. Historical Averages

For our 2016-2017 Capital Market Assumptions (CMAs), we are forecasting lower returns for most asset classes than their longer-term historical averages, mainly due to our expectations for slow growth and low inflation. Our CMAs also reflect a zero cash premium vs. a historical 50 basis-point premium. The CMAs are not historical averages or return-to-trend calculations. They reflect the trends that we believe investors are most likely to experience during the next 10 to 15 years. The actual rate of return of any asset will not necessarily follow long-term averages. Instead, it is more likely to fluctuate around the averages. We consider long-term themes in the development of our CMAs. In this report, we review these themes and offer our insight on our CMAs.

Chart 1. Our Capital Market Assumptions are Conservative Relative to History



Source: Wells Fargo Investment Institute, 7/21/16. For illustrative purposes only. Does not represent any particular investment.

Several of the key global investment trends we expect to see over the next 10 to 15 years include:

- Inflation that is lower than long-term averages, but still above the Federal Reserve's target
- Interest rates slowly rising to accommodate improving economic growth and moderate inflationary pressures
- Higher volatility in the capital markets and lower-than-historical total returns in the fixed-income markets
- Improving developed-market growth, with emerging-market growth leveling off
- Modest commodity price gains as supply and demand balance

Table 1. Our 2016-2017 CMAs vs. Historical (Since Inception) Return and Volatility

Asset Class	Hypothetical Geometric Return	Historical Geometric Return		Hypothetical Standard Deviation	Historical Standard Deviation		Inception Date
Cash Alternatives	2.5	2.8	↓	1.5	0.6	↑	Jan. 1992
U.S. Short Term Taxable Fixed Income	2.6	4.1	↓	1.8	1.5	↑	Jan. 1993
U.S. Intermediate Taxable Fixed Income	3.1	5.5	↓	5.0	3.3	↑	Jan. 1993
U.S. Long Term Taxable Fixed Income	3.2	7.3	↓	10.5	8.4	↑	Jan. 1993
Short Term Tax Exempt Fixed Income	2.1	4.3	↓	1.8	1.8	↓	Jan. 1990
Intermediate Tax Exempt Fixed Income	2.5	5.2	↓	5.0	3.9	↑	Jul. 1993
Long Term Tax Exempt Fixed Income	2.5	6.6	↓	10.5	5.0	↑	Jan. 1990
Developed Market ex. U.S. Fixed Income	2.8	6.9	↓	8.0	9.3	↓	Jan. 1986
High Yield Taxable Fixed Income	6.1	8.8	↓	12.0	8.5	↑	Aug. 1983
Emerging Market Fixed Income	6.2	9.0	↓	12.5	12.8	↓	Jan. 1994
Inflation-Linked Fixed Income	3.1	5.6	↓	6.0	5.7	↑	Apr. 1997
Preferred Stock	4.5	6.4	↓	12.0	15.0	↓	Mar. 1989
U.S. Large Cap Equities	7.7	10.0	↓	16.5	18.9	↓	Jan. 1926
U.S. Mid Cap Equities	8.3	13.1	↓	18.3	16.8	↑	Feb. 1979
U.S. Small Cap Equities	8.5	11.4	↓	20.0	19.5	↑	Jan. 1979
Developed Market ex. U.S. Equities	7.5	9.5	↓	17.5	17.0	↑	Jan. 1970
Developed Market ex. U.S. Small Cap Equities	8.3	8.8	↓	20.0	18.6	↑	Jan. 2001
Emerging Market Equities	9.0	10.5	↓	24.0	23.2	↑	Jan. 1988
Frontier Market Equities	8.2	8.1	↑	28.0	19.1	↑	Jun. 2002
Public Real Estate	7.2	7.6	↓	18.0	18.2	↓	Jan. 1990
Private Real Estate	7.7	9.3	↓	15.0	4.3	↑	Mar. 1978
Infrastructure	7.5	9.8	↓	16.0	15.1	↑	Dec. 2001
Master Limited Partnerships (MLPs)	7.6	12.8	↓	17.0	16.2	↑	Jan. 1996
Timberland	6.8	12.3	↓	12.3	7.9	↑	Mar. 1987
Commodities	4.4	1.9	↑	15.0	14.9	↑	Jan. 1991
Hedge Funds - Relative Value	5.1	9.5	↓	5.8	4.3	↑	Jan. 1990
Hedge Funds - Macro	4.9	10.8	↓	6.3	7.3	↓	Jan. 1990
Hedge Funds – Event Driven	5.4	10.5	↓	7.0	6.7	↑	Jan. 1990
Hedge Funds – Equity Hedge	5.5	11.7	↓	8.8	8.9	↓	Jan. 1990
Private Equity	11.1	13.5	↓	22.0	9.4	↑	Jun. 1986
Private Debt	8.1	9.3	↓	16.0	6.0	↑	Jun. 1986

Source: Wells Fargo Investment Institute, Bloomberg, Morningstar, 7/21/16. Historical returns and standard deviation are calculated from inception date to December 2015. "Inception Date" indicates date of index creation.

Capital market and asset-class assumptions use risk calculations to estimate how asset classes and combinations of classes may respond during negative market environments. Hypothetical returns represent our estimate of likely average returns over the next several market cycles. They do not represent the returns that an investor should expect in any particular year. Geometric return is the compounded annual return that would give the same result as a given series of annual returns based on those same assumptions. The return and risk assumptions are statistical averages that do not represent the experience of any individual investor or any specific time period. Standard deviation is a measure of volatility. It reflects the degree of variability surrounding the outcome of an investment decision; the higher the standard deviation, the greater the risk. These are long-term assumptions used for comparative purposes and may differ greatly from the short-term performance and volatility experienced by your actual investment holdings. The assumptions are not designed to predict actual performance, and there are no assurances that any estimates given will be achieved. The information given has been provided as a guide to help you with your investment planning and does not represent the maximum loss your portfolio could experience. **Past and hypothetical performance is no guarantee of future results.**

There are two primary asset classes for which our 2016-2017 CMA returns are higher than historical averages:

- Frontier-Market Equities: The return is in line with historical averages.
- Commodities: The time period analyzed includes two bear markets and one bull market. Additionally, the recent commodity bear market has further skewed historical results. We believe that, over the long term, commodity appreciation will be a function of global inflation and gross domestic product (GDP) growth.

Our standard deviations are lower than historical averages for the following investment areas:

- Short-Term Municipal Bonds: The standard deviation is in line with historical performance.
- Developed -Market (Ex-U.S.) Fixed Income: The standard deviation is in line with the 10-year average, which we believe is a better representation of go-forward volatility.
- Emerging-Market Fixed Income: The standard deviation is in line with historical performance.
- Preferred Stock: We believe that preferred stock likely will experience volatility similar to that of high-yield taxable bonds.
- U.S. Large Cap Equities: Although the standard deviation is below the average since 1926, it is well above the 10- and 30-year averages of approximately 15.
- Public Real Estate: The standard deviation is in line with historical performance.
- Hedge Funds – Macro: Although the standard deviation is below the long-term average, it is well above the 10-year average of 4.8.
- Hedge Funds – Equity Hedge: The standard deviation is in line with historical performance.

Risk Factors

Different investments offer different levels of potential return and market risk and there can be no assurance a portfolio will meet its investment objectives. ***All investing involves risk including the possible loss of principal.*** Be sure you understand and are able to bear the associated market, liquidity, credit, fluctuations in yield and other risks involved in an investment.

The asset classes in Table 1 are represented by broad-based securities market indices which have been selected because they are well-known and easily recognizable by investors. Indices have limitations because they have volatility and other material characteristics that may differ from those of your portfolio. They are unmanaged and not available for direct investment. Hedge fund indices have limitations which are typical of other widely used market indices but these indices are also subject to survivorship bias and limited data. Bear in mind that the investments included in your portfolio may differ significantly from the holdings, weightings and asset allocation of an index and, unlike an index, your portfolio is subject to fees, expenses, taxes, transaction costs and other charges typically associated with an investment account. The performance and volatility of your portfolio may be materially different from the performance of an index and should not be relied upon as a measure of the performance your portfolio may achieve. CMA forecasts are not promises of actual returns or performance that may be realized. They are based on estimates and assumptions that may not occur.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII) WFII is a registered investment adviser and wholly-owned subsidiary of Wells Fargo & Company and provides investment advice to Wells Fargo Bank, N.A., Wells Fargo Advisors and other Wells Fargo affiliates. Wells Fargo Bank, N.A. is a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Wells Fargo Advisors is registered with the U.S. Securities Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is the trade name used by two separate registered broker-dealers: Wells Fargo Advisors, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, non-bank affiliates of Wells Fargo & Company. CAR 0716-03696