Hedge Funds & Managed Futures
A Complementary Pair

Before you make an investment decision, it is important to review your financial situation, investment objectives, risk tolerance, time horizon, diversification needs and need for liquidity. This presentation is not an invitation to subscribe for shares in any fund and is intended for informational purposes only. Hedge Funds are only available to persons who are "accredited investors" or "qualified purchasers" within the meaning of U.S. securities laws. Any offer to purchase or sell a specific Alternative Investment product will be made by the product’s official offering documents.

Wells Fargo believes that investors should diversify their investments. It is recommended that investors observe an asset allocation strategy and not overweight their overall portfolio in any one class of securities. Although asset allocation can be an effective investment strategy, it cannot eliminate the risk of fluctuating prices and uncertain returns.

Data as of September 30, 2015, unless otherwise noted.
Historical Asset Class Outperformance With Lower Volatility

An equally weighted model portfolio of hedge funds and managed futures has historically provided a smoother ride than global equities, due in large part to its ability to potentially limit volatility and avoid large drawdowns.

Hedge funds represented by the HFRI Fund of Funds Composite Index. Managed Futures represented by the Barclay CTA Index. Global Equities represented by the MSCI World Index. Returns shown reflect the reinvestment of dividends. It is not possible to invest directly in an index. Past performance does not guarantee future results. * Data shown for common inception of all indices; as of January 1, 1990. Source: MPI Stylus.
Consistency of Asset Class Returns

An equally weighted model portfolio of hedge funds and managed futures has provided more consistent returns compared to global equities.

Hedge funds represented by the HFRI Fund of Funds Composite Index. Managed Futures represented by the Barclay CTA Index. Global Equities represented by the MSCI World Index. Data shown for common inception of all indices; as of January 1, 1990. It is not possible to invest directly in an index. Past performance does not guarantee future results. Source: MPI Stylus.
The Lost Decade

The “lost decade” for the stock market could have been potentially mitigated with the addition of hedge funds and managed futures.
During the last bear market, hedge fund-of-funds provided a level of downside protection while managed futures illustrated their effectiveness as a diversification tool.
Potentially Valuable Addition to a Traditional Portfolio

The addition of hedge funds and managed futures to a traditional portfolio of stocks and bonds has the potential to lower volatility.

Traditional Portfolio = 60% Stocks, 40% Bonds
Hedge Funds represented by the HFRI Fund of Funds Composite Index. Managed Futures represented by the Barclay CTA Index. Stocks represented by the S&P 500 Index. Bonds represented by the Barclays U.S. Aggregate Bond Index. Data shown for common inception of all indices; as of January 1, 1990. This information is hypothetical and is provided for illustrative purposes only. It is not intended to represent any specific return, yield or investment, nor is it indicative of future results. The indices are unmanaged and not available for direct investments. Returns shown reflect the reinvestment of dividends. Source: MPI Stylus.
Important Considerations Before Investing
Important Considerations Before Investing

While investors may potentially benefit from the ability of alternative investments to potentially improve the risk-reward profiles of their portfolios, the investments themselves can carry significant risks. Government regulation and monitoring of these types of investments may be minimal or nonexistent, returns may be volatile and present an increased risk of investment loss. Some important considerations for investors in alternative strategies include:

**Complexity:** Alternative investment strategies may span multiple markets, securities and risk factors. For many hedge funds and managed futures strategies, computer programs running advanced mathematical equations and models drive trading and portfolio construction. Because of the complex nature of these investment opportunities, an investor must rely on the experience, representations and credentials of advisors, fund managers and distribution agents.

**Holdings:** Markets for a portfolio’s holdings may be relatively inactive and it is possible that trading in a specific portfolio holding could cease altogether. As a result, market valuations of specific portfolio holdings may not always be possible, causing accurate valuation of a portfolio to be difficult at times. This is most commonly characteristic of investments in real properties or private companies but is also a concern of hedge fund investors. A lack of market demand for securities held in a hedge fund portfolio may impair the investment manager’s ability to accurately determine and communicate the value of investors’ accounts.

**Transparency:** In order to preserve strategic advantage and the ability to transact nimbly, hedge fund managers often significantly limit the ability for investors to review portfolio holdings. This practice – known as opacity or lack of transparency – can limit investors’ and advisors’ abilities to monitor managers and evaluate risks.

**Leverage:** Because many alternative investment strategies seek to amplify mispricings that are relatively small, borrowing is often critical to delivering significant returns to investors. This use of leverage tends to amplify both gains and losses.

**Liquidity:** An investor’s ability to withdraw capital from funds or partnerships may be subject to specific limitations, including initial “lock-up” periods, advance notification requirements and predetermined “windows” for redemptions. While most alternative strategies impose lock-ups, the practice tends to be most restrictive for participants in real estate partnerships and private equity funds where holding periods can be quite long (more than a decade in some cases) and positions indivisible.

**Fees and expenses:** In most alternative investment strategies, managers are paid in two ways: They typically receive a fee calculated as a percentage of assets under management. They also typically receive a share of the strategy’s gains – a practice designed to reward the manager for positive returns. Trading fees and expenses – for managed futures, in particular – may be significant with the potential to deplete trading profits. Funds of funds are subject to multiple layers of such fees.

**Tax Risks:** Investing in privately offered funds may involve significant tax consequences. Investors should understand that they will likely be required to obtain extensions of the filing date for their income tax returns due to possible delays in the delivery of Schedule K-1. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied upon in making an investment or other decision.

**Limited Liquidity:** A fund may not have a secondary market for its Interests and none may be expected to develop, and there are restrictions on transferring interests of the fund. Performance figures may be based on valuations of illiquid investments that are difficult to value, and certain managers may carry such assets at cost until a realization event.

**Potential Loss of Investment:** Hedge Funds and privately offered managed futures funds are speculative investments and are not suitable for all investors, nor do they represent a complete investment program. Such funds are not subject to the same regulatory requirements as mutual funds.

**Valuation Variations:** Investors should recognize that privately offered funds are not required to provide periodic pricing or valuation information or information about their underlying investments to investors.

**New Issues:** The performance figures shown are for the stated time periods only and may reflect the performance of ‘new issues’ as defined by the Financial Industry Regulatory Authority and may be different from performance produced for investors who are restricted from investing in ‘new issues’.
Disclosures

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Alternative investments carry specific investor qualifications which can include high income and net-worth requirements as well as relatively high investment minimums. They are complex investment vehicles which generally have high costs and substantial risks. The high expenses often associated with these investments must be offset by trading profits and other income. They tend to be more volatile than other types of investments and present an increased risk of investment loss. There may also be a lack of transparency as to the underlying assets. Other risks may apply as well, depending on the specific investment product.

Hedge funds and private equity funds are complex, speculative investment vehicles and are not suitable for all investors. They are generally open to qualified investors only and carry high costs, substantial risks, and may be highly volatile. There is often limited (or even non-existent) liquidity and a lack of transparency regarding the underlying assets. They do not represent a complete investment program. The 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. Hedge funds and private equity funds are not required to provide investors with periodic pricing or valuation and are not subject to the same regulatory requirements as mutual funds.

Investing in hedge funds may also involve tax consequences. Speak to your tax advisor before investing. Investors in funds of funds will incur asset-based fees and expenses at the fund level and indirect fees, expenses and asset-based compensation of investment funds in which these funds invest. An investment in a hedge fund and/or private equity fund involves the risks inherent in an investment in securities, as well as specific risks associated with limited liquidity, the use of leverage, short sales, options, futures, derivative instruments, investments in non-U.S. securities, “junk” bonds and illiquid investments. There can be no assurances that a manager’s strategy (hedging or otherwise) will be successful or that a manager will use these strategies with respect to all or any portion of a portfolio. Please carefully review the Private Placement Memorandum or other offering documents for complete information regarding terms, including all applicable fees, as well as other factors you should consider before investing.

Hedge funds are not suitable for all investors. Prospective investors are required to meet minimum financial eligibility guidelines to invest in hedge funds or funds of hedge funds. You should evaluate your individual financial condition and your ability to tolerate risk before you invest in hedge funds. The Securities and Exchange Commission (SEC) guidelines require that U.S. individual investors have at least $1.5 million total net worth to invest in a registered hedge fund. U.S. entities should have at least $5 million in investable assets. If the hedge fund is not registered with the SEC, it can offer or sell securities to only certain types of individuals. These individuals are known as “accredited U.S. individual investors,” which is defined as an individual with a net worth of at least $1 million (exclusive of the value of the primary residence) individually or jointly with his or her spouse, or earns an individual annual income of at least $200,000, or a joint annual income of at least $300,000 for the past two calendar years, with the reasonable expectation that the income will continue in the current calendar year. Sales are also allowed to an “accredited U.S. institutional investor,” which is defined as someone who has at least $5 million in investable assets. Finally, unregistered companies are allowed to sell securities to a “qualified investor,” which is an individual with at least $5 million in investable assets and other entities (corporations, foundations, etc.) with at least $25 million in investable assets.

Investments in commodities, futures, and managed futures are speculative, involve substantial risk, and are not suitable for all investors. Investors should be aware that such investments can lead to large losses as well as gains. Additionally, restrictions on redemptions may affect your ability to withdraw your participation. Furthermore, there may be substantial fees and expenses.

Managed futures funds are not suitable for all investors. Prospective investors are required to meet minimum financial eligibility guidelines to invest in managed futures. You should evaluate your individual financial condition and your ability to tolerate risk before you invest in managed futures funds. Managed futures funds can be offered as private or public offerings. Managed futures funds that are sold through a public offering generally have purchase restrictions set by the fund and explained in the fund offering documents. These restrictions will vary by fund, and additional purchase restrictions may be set by the placement agent. Managed futures funds that are offered as “private placements” (this is when funds are sold without a public offering, which means that funds are placed with a select number of private investors) require that an investor qualify as an “accredited investor.” An accredited U.S. individual investor is defined as an individual with at least $1 million in individual or joint net worth, or individual annual income of at least $200,000 or combined annual income of at least $300,000 for the past two calendar years, with the reasonable expectation that the income will continue in the current calendar year. Sales are also permitted to an “accredited U.S. institutional investor,” which is defined as someone who has at least $5 million in investable assets.

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Private Funds Entail Risks. The Funds are available only to qualified investors who are comfortable with the substantial risks associated with investing in private funds. An investment in private funds includes the risks inherent in an investment in securities, as well as specific risks associated with the use of leverage, short sales, options, futures, derivative instruments, investments in non-U.S. securities, junk bonds and illiquid investments. There can be no assurance that an investment strategy will be successful. Alternative investments carry specific investor qualifications which can include high income and net-worth requirements as well as relatively high investment minimums. They are complex investment vehicles which generally have high costs and substantial risks. The high expenses often associated with these investments must be offset by trading profits and other income. They tend to be more volatile than other types of investments and present an increased risk of investment loss. There may also be a lack of transparency as to the underlying assets. Other risks may apply as well, depending on the specific investment product.

Drawdown is any losing period during an investment record. It is defined as the percent retrace from an equity peak to an equity valley. Maximum Drawdown is the largest percentage drawdown that has occurred in any investment data record. Standard deviation is the measure of variability of return earned by an investment portfolio. Generally, the larger the standard deviation, the greater the risk taken to achieve the return. Correlation measures the strength and nature of the relationship between two variables and ranges from +1 (perfect positive correlation - the two variables move in the same direction by an equal amount) to 0 (no correlation - movement of the variables is random) to -1 (perfect negative correlation - one moves in the opposite direction of the other by an equal amount).

Diversified Portfolio w/ Alts is represented by a hypothetical portfolio represented by the following indices: S&P 500 Index (14%), HFRI Fund of Funds Conservative Index (2%), HFRI Fund of Funds Diversified (7%), CS-Tremont Managed Futures (3%), Bloomberg Commodity Index (5%), MSCI Emerging Markets (5%), MSCI EAFE (10%), Russell 2000 (3%), Russell Mid-Cap Index (5%), NAREIT (7%), Barclays Capital High Yield Corporate (5%), JP Morgan Non-U.S. Global Government Bond Index (7%), JP Morgan Emerging Markets Bond Index (3%), Barclays Capital 1-5 Year Credit Index (4%), Barclays US Intermediate Credit Index (17%), Merrill Lynch 3-Month T-Bill (3%).
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The BofA Merrill Lynch 3-Month Treasury Bill Index is an unmanaged index that measures returns of three-month Treasury Bills. The Barclays Capital US Intermediate Credit Index is an unmanaged index that consists of dollar-denominated, investment-grade, publicly-issued securities with a maturity of between one and ten years and that are issued by both corporate issuers and non-corporate issuers. Barclays U.S. Aggregate Bond Index is made up of the Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. Barclays CTA Index is a leading industry benchmark of representative performance of commodity trading advisors. To qualify for inclusion in the CTA Index, an advisor must have four years of prior performance history. Additional programs introduced by qualified advisors are not added to the Index until after their second year. The Barclay U.S. Corporate High-Yield Index covers the USD-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. The index excludes Emerging Markets debt. The Barclays 1-5 Year Credit Index includes all medium and larger issues of investment-grade corporate and investment-grade international dollar-denominated bonds that have maturities of between 1 and 5 years and are publicly issued. CS-Tremont Managed Futures Index is an asset-weighted hedge fund index. The Index uses the Credit Suisse/Tremont database, which track over 4500 funds, and consists only of funds with a minimum of US$50 million under management, a 12-month track record, and audited financial statements. Funds are separated into ten primary subcategories based on their investment style. Managed futures funds comprise one such subcategory. The CS-Tremont Managed Futures Index is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses. The Dow Jones-UBS Commodities Index (DJ-AIGCI) is composed of futures contracts on 19 physical commodities. Unlike equities, which entitle the holder to a continuing stake in a corporation, commodity futures contracts specify a delivery date for the underlying physical commodity. In order to avoid delivery and maintain a long futures position, nearby contracts must be sold and contracts that have not yet reached the delivery period must be purchased. This process is known as “rolling” a futures position. The DJ-AIGCI is a “rolling index”. The DJ-AIGCI is composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). HFRI Fund of Funds Composite Index tracks fund of funds that invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with different managers in multiple strategies. The minimum investment in a Fund of Funds may be lower than an investment in an individual hedge fund or managed account. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers. HFRI Fund of Funds Conservative Index tracks fund of funds that invest with multiple managers through funds or managed accounts. The strategy seeks to design a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with different managers in multiple strategies. The minimum investment in a Fund of Funds may be lower than an investment in an individual hedge fund or managed account. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers. The JPMorgan Non-U.S. Global Government Bond Index is an unmanaged market index representative of the total return performance, on a hedged basis, of major non-U.S. bond markets. It is calculated in U.S. dollars. Unless otherwise noted, index returns reflect the reinvestment of dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. The MSCI Emerging Markets Index currently covers 27 emerging market countries. Included in the EMBI Global are U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities. The MSCI EAFE Index (Europe, Australia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The Index consists of the 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of December 31, 2010, the index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The Russell 2000 Index is a market capitalization-weighted, price-only index comprising 2,000 of the smallest stocks (on the basis of capitalization) in the Russell 3000 Index. Representing approximately 10% of the Russell 3000 total market cap, this is a small cap index. The Russell Midcap Index offers investors access to the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set. The Russell Midcap Index includes the smallest 800 securities in the Russell 1000. S&P 500 Index is a market-value weighted index provided by Standard & Poor’s which consists of 500 stocks chosen for market size, liquidity, and industry group representation. Includes reinvestment of dividends.