

A guide to investing in exchange-traded products

What you should know before you buy

Before you make an investment decision, it is important to review your financial situation, investment objectives, risk tolerance, time horizon, diversification needs, and liquidity objectives with your financial advisor. This guide will help you better understand the features and costs associated with exchange-traded products, as well as how your financial advisor and Wells Fargo Advisors are compensated when you invest in these products.

This guide provides an overview of the various types and structures of exchange-traded products (ETPs) and some of the characteristics of each. It also describes complex “futures-linked” ETPs, as well as non-traditional ETPs. As further described below, these and other exchange-traded products may seem similar, but their functional risks and characteristics are quite different.

What are exchange-traded products?

Exchange-traded products (ETPs) at their core are securities which derive their value from a basket of securities such as stocks, bonds, commodities, or indices, and are traded similar to individual stocks on an exchange. When you purchase an ETP, you are purchasing shares of the overall portfolio, not the actual shares of the underlying investments or index components. Passively-managed ETPs can track a wide variety of sector-specific, country-specific, and broad-market indices, while actively-managed ETPs do not track any particular index. ETPs may provide diversification to your overall portfolio because one share or one unit may represent multiple underlying stocks, bonds, and/or other asset classes.

Passively-managed ETPs seek to track the market performance of the underlying index that makes up its basket of securities, whereas actively-managed ETPs are not tied to a specific index. Although passive ETPs seek to mirror the performance of a particular index, the relationship between performance of the index or sector and the passive ETP is not exact because of the fees and trading costs associated with the ETP, as well as the difficulties in exactly mimicking an index.

We have a responsibility to consider reasonably available alternatives in making a recommendation. We do not need to evaluate every possible alternative either within our products or outside the firm in making a recommendation. We are not required to offer the “best” or lowest cost product. While cost is a factor that we take into consideration in making a recommendation, it is not the only factor.

You should consider factors such as those below prior to accepting a recommendation:

- The potential risks, rewards, and costs in purchasing and in the future selling of a security.

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

- Your age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, and risk tolerance.
- The security's investment objectives, characteristics (including any special or unusual features), liquidity, volatility, and likely performance in a variety of market and economic conditions.
- For complex products, you should consider whether less complex or costly products achieve the same objectives.

By accepting a recommendation, you acknowledge that you have considered the above factors to your satisfaction.

ETP structures

Exchange-traded products (ETPs) encompass a number of structures which typically track an underlying benchmark, index, or portfolio of securities. ETPs may be structured as exchange-traded funds (ETFs), exchange-traded notes (ETNs), grantor trusts, or commodity pools.

Exchange-traded funds (ETFs) — The majority of ETPs are typically structured as registered unit investment trusts (UITs) or open-end investment companies (commonly referred to as “funds”) whose shares represent an interest in a portfolio of securities that track an underlying benchmark or index. These products are the most common type of ETP, and typically hold a basket of equity or fixed income securities constructed to track an index.

Exchange-traded notes (ETNs) — Exchange-traded notes (ETNs) are not funds, are not registered under the Investment Company Act of 1940, and are not subject to the same regulatory requirements as mutual funds, closed-end funds, or exchange-traded funds. ETNs are senior, unsecured debt obligations issued by a financial institution and are typically designed to track the total return of an underlying index. ETNs do not have principal protection and are at the risk of the creditworthiness of the issuer.

Grantor trusts and commodity pools — ETPs that hold commodities, currencies, commodity- or currency-based instruments, or volatility instruments may be structured as grantor trusts or commodity pools, depending on the type of underlying instrument. ETPs that hold physical bullion or currency are typically structured as grantor trusts. However, ETPs that obtain exposure to commodities or other asset classes through the use of futures or forwards contracts are commonly structured as commodity pools. Grantor trusts and commodity pools are not registered as investment companies and do not have the protections of the Investment Company Act of 1940. Tax consequences vary depending on the structure and underlying instruments used in each ETP. Consult your tax advisor to determine the impact to your individual tax picture.

Futures-linked ETPs

Many commodity, currency, or volatility ETPs attempt to track a futures-based index. Typically, these ETPs invest all their assets in a pool which may hold futures contracts, swaps, and/or forward contracts. They are not the equivalent of investing directly in the actual physical commodity, currency, or volatility instrument. Futures-linked ETPs are complex investment vehicles and,

as a result of the use of futures contracts and swaps, are subject to unique risks and characteristics. Futures-linked ETPs are generally passively managed. These products may be volatile and may use leverage. As a result of their complex structure, their performance may not necessarily correspond to the underlying spot price performance (the spot price is the price of goods, currencies, or securities that are offered for immediate delivery and payment). In fact, when there are significant differences between the spot price and the futures price, the performance of the ETP may be very dissimilar to the spot price performance and may adversely impact your return. This deviation could be positive or negative depending on market conditions and investment strategy.

The difference between the performance of futures-linked ETPs and the underlying spot price may also be affected by the “rolling” of contracts by the fund manager. For instance, the manager wants to have ongoing, continual exposure to the particular commodity (or commodities) by using futures contracts or swap contracts. Therefore, if the manager is long (or holds) the contract, the manager must liquidate the contract that is currently held, sometime before expiration, and then gain exposure to another contract with a later expiration. The manager must continually liquidate and buy in contracts as the contracts’ expiration dates approach. When commodity futures-linked securities are rolled, the difference between the price of the contract it sells and the price of the new contract it buys is called the “roll yield.” The effect of rolling contracts will vary depending on whether a particular commodity or futures market is in contango or backwardation. Contango and backwardation are unique risks associated with futures.

Contango — When a market is in contango, contracts for more distant future delivery are more expensive than near-term contracts for the same commodity. Accordingly, if contracts are rolled in an attempt to maintain a long position while in contango, then the result is a loss or a negative roll yield.

Backwardation — Backwardation is the opposite of contango. Backwardation is when more distant futures contracts are less expensive than the near-term contracts, possibly resulting in a gain when rolling. Thus, backwardation generally results in a positive roll yield for an investor who is long on futures contracts and rolls into contracts with a later expiration.

It is important that you understand how futures-linked ETPs are structured, in addition to understanding the risks and characteristics of purchasing investments that focus on futures trading prior to purchasing a futures-linked ETP.

Futures-linked ETPs are not appropriate for all investors. The performance of the future-linked ETPs does not necessarily replicate the spot price and can deviate significantly from the performance of the spot price of the referenced commodity.

Actively-managed ETPs

An actively-managed ETP is an exchange-traded fund that is managed by a single or team of fund managers. Actively managed exchange-traded funds do not seek to replicate the performance of a specific index. Instead, they use an active investment strategy to meet their investment objective. In an actively managed ETP, portfolio managers may amend investment allocations, based on their market views, while remaining within the parameters of the funds’ stated investment policies.

Semi-transparent ETPs

Transparent ETPs disclose their holdings to the public on a daily basis, semi-transparent ETPs do not do this. Semi-transparent ETPs are actively-managed and disclose their holdings either monthly or quarterly with a lag. The differences between these ETPs and transparent ETPs has an advantage for the managers. By keeping certain information about these ETPs secret, these ETPs may face less risk that other traders can predict or copy its investment strategy. However, in order to make a market for the ETP to trade, the ETP sponsor provides a sample or basket of securities of the portfolio to market makers that is used to price the product. As such, there is a risk that the price paid or received for the purchase or sale of the ETP will not perfectly align with the performance of the underlying holdings. This risk may be greater in uncertain market conditions.

Non-traditional ETPs — Involve investment strategies that utilize swaps, futures contracts, and other derivative instruments, and therefore introduce counterparty risk. They are complex financial instruments typically designed to deliver multiples of the performance of the index or benchmark they track on a daily or monthly basis. However, these products may significantly deviate from their expected return due to market volatility, use of leverage, and periodic resets.

Leveraged ETPs — Leveraged ETPs attempt to track a multiple of the daily (or monthly) returns of an index usually by using total return swaps. A leveraged ETP may be two times (2x) or three times (3x) or other leverage multiples, which means it attempts to provide two or three times the daily index return or loss, respectively. For instance, the double leveraged ETP seeks to provide a 2% gain on that daily return for each 1% increase in the market index return. Conversely, if the index drops 1%, your loss, in theory, would be 2% for that given day, assuming the ETP is rebalanced daily. Non-traditional ETPs use of leverage in an investment portfolio can magnify any price movements resulting in high volatility and potentially significant gain or loss of principal. In addition, the use of leverage, coupled with periodic portfolio resets, may cause the investment performance to deviate significantly from the stated objective if held over multiple trading sessions.

Inverse ETPs — Some leveraged ETPs are inverse or “short” funds, meaning that they seek to deliver the opposite of the performance of the index or benchmark they track. An inverse ETP generally engages in trading strategies, such as short selling, or enters into total return swap agreements and futures contracts. An inverse ETP seeks to deliver the inverse (-1x) of the index’s performance, while a two times (-2x) or three times (-3x) leveraged inverse ETP seeks to deliver two or three times the opposite of the index’s performance, respectively. To accomplish their objectives, non-traditional ETPs involve investment strategies that utilize swaps, futures contracts, and other derivative instruments. Both leveraged and inverse non-traditional ETPs are trading vehicles and are not appropriate for investors who are interested in a buy-and-hold strategy, particularly in volatile markets.

Volatility-linked ETPs — Another type of non-traditional ETPs are those with exposure to futures contracts tied to the CBOE SPX Volatility Index (better known as the VIX). These products use various complex methodologies to gain exposure to the VIX, and are not designed to be long-term investments.

It is not possible to invest directly in the VIX, and the use of VIX futures contracts in these products creates potential for significant long-term deviation from the VIX.

Non-traditional ETPs are not appropriate for most investors. The effects of mathematical compounding can grow significantly over time, leading to scenarios whereby performance over the long run can differ significantly from the performance (or inverse performance) of their underlying index or benchmark during the same period of time leveraged, inverse, leveraged inverse, and other complex ETPs may be more volatile and risky than traditional ETPs due to their exposure to leverage and derivatives, particularly, total return swaps and futures. In addition, these instruments are typically designed to achieve their desired exposure on a daily (in a few cases, monthly) basis. Holding leveraged, inverse, and leveraged inverse ETPs for longer periods of time potentially increases their risk due to the effects of compounding and the inherent difficulty in market timing.

Alternative ETPs — Alternative exchange traded products (alt ETPs) seek to accomplish the fund's objectives through non-traditional investments and trading strategies. Alt ETPs might invest in assets such as global real estate, commodities, leveraged loans, start-up companies, and unlisted securities that offer exposure beyond traditional stocks, bonds, and cash.

The strategies alternative ETPs employ may be complex. Examples include hedging and leveraging through derivatives, short selling, and “opportunistic” strategies that change with market conditions as various opportunities present themselves. Some alt ETPs employ single strategy (single-strategy funds), while other ETPs may utilize multiple strategies within the same ETP.

Alt ETPs are managed to a wide range of investment objectives. In some cases, the ETP's primary objective may be to generate above-market returns. In other cases, an ETP's main goal may be to help investors better manage risk with strategies designed to smooth out volatility or offer greater diversification. Alt ETPs are not appropriate for all investors, and it's important to understand the strategy of the ETP you are purchasing.

In addition to the aforementioned characteristics, Alt ETPs may have relatively higher expense ratios when compared to traditional ETPs. Please see the ETP's prospectus for details, as well as other characteristics and potential risks.

ETPs tracking alternatively weighted indices

Indexing has continued to expand beyond traditional market capitalization-weighted methods to alternatively weighted strategies (e.g., using equally weighted, fundamentally weighted, volatility weighted indices). These indices provide exposure to specific investment risk factors or strategies. They generally begin with securities from a broad-based index and apply a set of rules to determine a portfolio of securities believed to provide the greatest potential for capital appreciation, total return, or other investment objective. Products tracking such indices may or may not provide superior risk-adjusted performance relative to products tracking more traditional capitalization weighted indices.

ETPs that track alternatively weighted indices may or may not provide superior risk-adjusted returns when compared to traditional market cap weighted indices. Products tracking these indices may be unfamiliar, moreover, ETPs tracking these indices may be thinly traded and have wide bid ask spreads making these funds more costly to trade, in addition to their generally higher internal expenses. It is uncertain how these products will behave in different market environments. Please see the ETP's prospectus for details, as well as other characteristics and potential risks.

Features and characteristics

Some key features and characteristics associated with ETPs include:

Tax efficiency — Traditional ETPs are generally not actively managed and, as a result, typically generate fewer capital gains due to the low turnover of the securities within their portfolio. Taxes must be paid on all distributions made by the underlying securities and any capital gains associated with transactions made by the fund. However, because ETPs offer in-kind redemptions to qualified entities, they can avoid realizing capital gains for the fund although shareholders must still pay any taxes on realized gains. Non-traditional ETPs may not be tax efficient due to the increased amount of portfolio turnover due to periodic rebalancing as well as the use of leverage. If you have questions about the possible tax consequences associated with these funds, you should consult your tax advisor before making any investment decision.

Expense ratios — Management fees and operating expenses are charged by the fund management company to cover the costs associated with management, marketing, and fund administration costs. Fees may vary depending upon the fund manager's trading activity. ETPs follow a unitary or non-unitary fee structure and expenses may fluctuate over time. Purchases and sales of ETPs are subject to brokerage commissions. All fees and expenses are described in detail in the prospectus.

Transparency — The securities in most ETP portfolios are made public every day, with the exception of some actively-managed ETPs that do not disclose holdings on a daily basis. Since passively-managed securities generally trade within an index or sector that the ETP follows, you may be able to determine the positions within the portfolio at any time. You may find this beneficial because the transparency could allow you to have more control over your overall investment portfolio allocation and weightings.

Portfolio diversification (access to wide range of sectors) — ETP portfolios can be diversified across many different securities, offering a set of portfolios for almost every asset allocation need. This diversification can help reduce an investor's risk by potentially offsetting losses from some securities with gains in others. Bear in mind, diversification cannot guarantee a profit or protect against loss in a declining market.

Buying and selling flexibility — ETPs are priced and can be purchased and sold throughout the trading day. Furthermore, you can buy or sell ETP shares on a stock exchange much like the purchase or sale of any other listed stock.

Risks

Until recently, traditional ETPs have generally not been actively managed. This means that securities in the portfolio will not be purchased or sold in an attempt to take advantage of changing market conditions. A traditional ETP may continue to hold securities even though their market value and dividend yields may have changed. An ETP generally carries the same investment risk as the portfolio of securities that comprises the index tracked within the ETP. Securities in a portfolio may depreciate, and the ETP may not achieve its intended objective. In addition, each ETP is subject to specific risks that vary depending on each ETP's investment objectives and portfolio composition.

Call, early redemption, and acceleration risk — Some ETNs are callable at the issuer's discretion. In some instances, ETNs can be subject to early redemption or an "accelerated" maturity date at the discretion of the issuer or one of its affiliates. Since ETNs may be called at any time, their value when called may be less than the market price paid, or even zero, resulting in a partial or total loss of your investment.

Concentrated products — Some ETPs may be concentrated by the number of holdings or within a particular industry or sector. Such concentration may make the value of an ETP more susceptible to portfolio fluctuation.

Credit risk — ETNs are senior, unsecured debt obligations issued by a financial institution and are typically designed to track the total return of an underlying index. ETNs do not have principal protection, are at the risk of the creditworthiness of the issuer, and do not pay interest during their term.

Fixed income ETPs — It is possible to lose money by investing in ETPs (including ETPs with defined maturity dates) holding fixed income securities, especially during periods of rising interest rates. Bond prices are negatively correlated to interest rates, so as general market interest rates rise, the price of a bond could decrease. The greater the movement in interest rates, the greater impact potential on a bond's price. The opposite is true as well; if rates fall, bond prices could rise. Bond ETPs are subject to the same risks as their underlying investments which may include, but are not limited to, credit quality, duration, liquidity, and security structure. Fixed income ETPs are not cash alternatives or money market fund equivalents. You should not buy a fixed income ETP based solely on the yield. It is important to consider all risks and characteristics of a bond ETP when making your investment decision.

Floating rate ETPs — Floating rate ETPs invest primarily in below investment grade securities (also known as junk bonds). The securities held within floating rate ETPs are often rated below investment grade by one or more of the nationally recognized rating agencies or may not be rated by a rating agency. These securities may offer higher than average yields but are considered speculative and carry increased risks of price volatility, underlying issuer creditworthiness, illiquidity, and the possibility of default in the timely payment of interest and principal, which may impact the value of your portfolio. These ETPs should not be considered as an alternative to money market funds. You should carefully consider the risks of these products and not base your investment decision solely on the yield offered by the ETP.

Halting of creations — The ability of ETP sponsors to perpetually create new shares allows ETPs to efficiently and accurately track their respective indices. However, sponsors may choose at their discretion to cease creating new shares, which may lead the ETP to trade at significant premiums to the value of their underlying holdings or index.

International ETPs — ETPs may invest in foreign securities and currencies of developed, emerging market, and frontier market countries. These investments (equity and fixed income) may be subject to increased risks and could lose value as a result of political, financial, and economic events in foreign countries. It is also important to keep in mind that foreign investments typically have less publicly available information than U.S. investments, are subject to less stringent foreign securities regulations than domestic securities, and are influenced by different factors than in the U.S.

Investment Company Act registration — ETNs, as well as other ETPs holding futures, bullion, or demand deposits are typically not registered under the Investment Company Act of 1940. Shareholders do not have the protections associated with ownership of shares in an investment company registered under the Investment Company Act. The Investment Company Act is designed to protect investors by preventing: insiders from managing investment companies to their benefit and to the detriment of public investors; the issuance of securities having inequitable or discriminatory provisions; the management of investment companies by irresponsible persons; the use of unsound or misleading methods of computing earnings and asset value; changes in the character of investment companies without the consent of investors; and investment companies from engaging in excessive leveraging. To accomplish these ends, the Investment Company Act requires the safekeeping and proper valuation of fund assets, restricts greatly transactions with affiliates, limits leveraging, and imposes governance requirements as a check on fund management.

Liquidity — Securities within an ETP may be subject to liquidity risk. Liquidity risk exists when particular investments are difficult for a fund sponsor to purchase or sell. This can reduce the returns of an ETP because the sponsor may not be able to transact at advantageous times or prices.

Management risk — Actively-managed ETFs are subject to management risk. In managing the fund's portfolio securities, the Investment Advisor will apply investment techniques and risk analyses in making investment decisions for the fund, but there can be no guarantee that these will produce the desired results.

Market risk — An ETP may continue to hold securities even though their market value and dividend yields may have changed. An ETP generally carries the same investment risk as the portfolio of securities within the ETP. Securities in a portfolio may depreciate, and the ETP may not achieve its intended objective. In addition, each ETP is subject to specific risks that vary depending on each ETP's investment objectives and portfolio composition.

MLP ETPs — While Wells Fargo Advisors does not provide tax advice it is important to note that Master Limited Partners (MLPs) ETPs may be classified for federal income tax purposes as a taxable regular corporation, or Subchapter “C” corporation. Subchapter “C” corporations accrue deferred tax liability, if any, and may reduce the ETP’s net asset value. Return of Capital distributions made by the ETP may reduce your cost basis, and therefore, may increase your tax liability upon selling the ETP. Please contact your tax advisor for specific tax advice.

MLP ETPs have their own unique investment risks. For more information on MLP risk, see the *A Guide to Investing in Master Limited Partnerships* at www.wellsfargoadvisors.com/guides. For additional fund specific risks, please see the fund’s prospectus.

Municipal bond ETPs — It is possible to lose money by investing in ETFs (including ETPs with defined maturity dates) holding municipal fixed income securities, especially during periods of rising interest rates. Investments in municipal securities are subject to the creditworthiness of their issuers. Municipal bond ETPs are subject to the same risks as their underlying municipal securities. Economic issues may impact the performance of the municipal bond issuer, as a result, principal is at risk and subject to fluctuation. For instance, if the underlying municipality defaults or the security is downgraded, a decrease in the value of these securities may impact your portfolio. Some single-state municipal bond ETPs may offer certain tax benefits, but may lack the diversification of a national fund. Single state municipal ETPs can, and often do, hold securities from outside that state — including U.S. territories.

Net asset value risk — The value of the securities, or net asset value (NAV), within an ETP, may move up or down, sometimes rapidly and unpredictably. The NAV at any point in time may be worth more or less than the value at the time of the original investment, even after taking into account any reinvestment of dividends and distributions.

Performance risk — ETPs are either passively managed or actively managed. Passively managed ETPs seek to mirror the index, therefore it is unlikely that the investment will outperform the index because the securities in the portfolio may not be purchased or sold in an attempt to take advantage of changing market conditions. Actively managed ETPs do not seek to replicate the performance of an index. Portfolio managers make investment decisions in an attempt to take advantage of market conditions, but there is no guarantee that the ETP will achieve its investment objective.

Tracking risk — ETPs may not track the underlying index due to imperfect correlation between the ETP’s portfolio securities and those in the underlying index, rounding prices, changes to the underlying index, and regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the ETP incurs fees and expenses while the underlying index does not.

Trading hours — Underlying holdings of certain ETPs may have significantly different trading hours than the ETP themselves. While it is possible to trade ETPs when the markets of their underlying holdings are closed, premiums and discounts may widen during those times.

Non-traditional ETPs and futures-linked ETPs are complex products and should only be purchased by sophisticated investors who understand the speculative nature of these products. As a result, these products are subject to a number of risks that transcend those of traditional ETPs. These risks may include, but are not limited to, the following:

Counterparty risk — ETPs that use derivative instruments may enter into contracts with a counterparty. As a result, an ETP is subject to credit risk with respect to the amount it expects to receive from counterparties to swaps and forward contracts entered into as part of that ETP's principal investment strategy. If counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, an ETP could suffer significant losses on these contracts and the value of an investor's investment in an ETP may decline.

Speculative in nature — Non-traditional ETPs are speculative trading vehicles, appropriate only for sophisticated investors. You should not own a non-traditional ETP if you are unable to bear the associated market risk and the potential loss of principal. Non-traditional ETPs are not appropriate for all investors.

Holding period — Positions in non-traditional ETPs should be monitored closely due to their volatile nature and inability to track the underlying index over an extended period of time. Non-traditional ETPs are not intended to be held long term.

Leverage — Non-traditional ETPs use of leverage in an investment portfolio can magnify any price movements resulting in high volatility and potentially significant gain or loss of principal. In addition, the use of leverage, coupled with periodic portfolio resets, may cause the investment performance to deviate significantly from the stated objective if held over multiple trading sessions.

Volatility — ETP prices change throughout the trading day as investors buy and sell shares in the marketplace. The availability of a continuous market value pricing allows investors the capability to both take advantage of and be at risk of market fluctuations. Investment returns will fluctuate subject to market volatility, so that when shares are redeemed or sold, the investment may be worth more or less than the principal investment. Due to their volatile nature, non-traditional ETP performance can change significantly from their stated objective. You can lose money investing in non-traditional ETPs.

Each type of ETP offers unique risks and characteristics. Please refer to the prospectus for additional details.

Tax treatment

With the exception of ETNs, most ETP shareholders are subject to income taxes on the interest, dividends, and/or capital gains distributed to them from the portfolio. However, in retirement accounts such as individual retirement accounts (IRAs), taxes are deferred until distributions are taken from the account. Also, when an investor sells the ETP position, he or she will generally realize a taxable gain or loss that should be reported on their income tax returns.

To gain certain exposures, a fund may utilize an offshore subsidiary that is wholly-owned by the fund. A change in tax law or regulation could adversely affect the way the fund is taxed, operated, and managed. Nonresident aliens may be subject to special tax withholding and reporting requirements as a result of an ETP sale. Certain ETPs may be subject to the alternative minimum tax (AMT). Shareholders should review the prospectus for further details. Shareholders should review the prospectus for further details.

Neither Wells Fargo Advisors nor your financial advisor can offer tax, legal, or accounting advice. As a result of complex tax-reporting requirements, investors should consult with their tax advisor or attorney before investing in ETPs.

Costs of investing in ETPs

Transaction fee — You will be assessed a transaction fee for purchases and sales of ETPs through Wells Fargo Advisors. ETPs offered by Wells Fargo Advisors may be purchased in an advisory account without a transaction fee. Your financial advisor does not receive compensation from the transaction fee.

Spread costs — ETP transactions are subject to spread costs. The bid/ask spread is the difference between the price an ETP is offered for purchase (the ask/offer price) and the price an ETP can be sold (the bid price). In periods of low liquidity (for the underlying securities or the ETP shares themselves), bid/ask spreads may widen considerably which in turn magnifies the cost of the security transaction. As spreads widen, the difference between the ETP Market Price and the ETP's Net Asset Value may be magnified. Trading ETPs with large spreads can affect potential returns since they affect the price at which an ETP is purchased or sold.

Premium/discount risk — The market price of an ETP may trade at a higher price (premium) or lower price (discount) to its NAV. The size of the premium or discount can vary significantly based upon multiple factors, including, but not limited to: 1) demand for the underlying assets; and 2) liquidity of the ETP shares.

Investor characteristics

ETPs are not appropriate for all investors. Selecting an ETP for your investment objectives involves a number of factors: fund strategies, fund performance history, risks, and investment time horizon. You should review any ETP's disclosure document, as well as the fund prospectus, to fully evaluate your options. You should also talk with your financial advisor so that, together, you can make the choices appropriate for you. Non-traditional ETPs and futures-linked ETPs are appropriate only for sophisticated and speculative investors as well as institutional clients who fully understand the complexities of these products and the significant risks that exist in purchasing or trading in them. Non-traditional ETPs and futures-linked ETPs are for individuals who have a high tolerance for risk as well as the ability and willingness to absorb potentially significant losses. An increase in market volatility relative to the level of expected return in the underlying index, commodity, or other related products may negatively impact your expected return.

Non-traditional ETPs are not designed to be used as long-term investment vehicles.

Many non-traditional ETPs rebalance on a daily or monthly basis. Due to the compounding of daily or monthly returns, the actual return of a non-traditional ETP may differ greatly from the return of a traditional ETP. The use of +2x or +3x leveraged ETPs does not guarantee double or triple the return, respectively, during any single or multiday holding period.

Talk to your financial advisor

Determining whether ETPs are an appropriate investment strategy for you requires an in-depth evaluation of your individual financial situation and the objectives you want to achieve. Talk with your financial advisor today about how ETPs may help you work toward your investment goals.

Diversification — Wells Fargo Advisors believes that investors should diversify their investment portfolios. It is recommended that investors observe an asset allocation strategy and not overweigh their overall portfolio in any one class or sector of securities, including the underlying portfolio within an ETP. Although asset allocation can be an effective investment strategy, it cannot eliminate the risk of fluctuating market prices and uncertain returns.

How your financial advisor and Wells Fargo Advisors are compensated on ETPs

For helping you invest in an ETP, Wells Fargo Advisors and your financial advisor are compensated in ways that vary depending on the selected investment. Your financial advisor will receive compensation in the form of a commission from most transactions. For most purchases, a financial advisor's compensation is based on the dollar amount purchased or sold in the ETP transaction. In certain fee-based accounts, a financial advisor's compensation is based on a percentage of assets in the account rather than on the concession as mentioned above. The compensation formula that determines the amount of payment to your financial advisor is generally the same for all ETPs.

Wells Fargo Securities (WFS) may receive compensation for making a market and keeping an inventory on select ETP offerings. WFS may have an investment banking relationship with ETP issuers. Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC, member NYSE, FINRA and SIPC and Wells Fargo Bank, N.A. Wells Fargo Bank, N.A. is a bank affiliate of Wells Fargo & Company.

Additional compensation received by Wells Fargo Advisors from ETP product sponsors

In addition to the transaction based commissions received by Wells Fargo Advisors and your financial advisor, Wells Fargo Advisors receives certain non-transaction related payments from ETP product sponsors, including reimbursements for training and education and payments for ETP data related to sales activities conducted by Wells Fargo Advisors with respect to ETPs of such ETP product sponsors.

Please note that these compensation arrangements are described in the prospectus and the Statement of Additional Information (SAI), a supplementary document to the prospectus, for each ETP offered by Wells Fargo Advisors. We included this section to provide you with enhanced disclosure about the compensation arrangements between Wells Fargo Advisors and ETP product sponsors and any associated potential conflicts of interest.

Training and education compensation

Wells Fargo Advisors offers multiple ways for product sponsors to provide training and education to our financial advisors in local branch offices or in larger group settings, including at the national level.

- Certain product sponsors have agreed to dedicate resources and funding to provide this training and education at our nationally-organized events. This commitment could lead our financial advisors to focus on the ETPs offered from these product sponsors versus those offered by families, which are not represented during support sessions.
- Wells Fargo Advisors selects the product sponsors that participate in the training and education events based on a variety of qualitative and quantitative criteria. The subset of product sponsors that offers this support and participates in nationally organized training and education events may change periodically.
- Product sponsors may also provide compensation to offset or reimburse Wells Fargo Advisors for costs incurred in conducting comprehensive training and educational meetings for its financial advisors. These meetings or events are held to teach financial advisors about the product characteristics, sales materials, customer support services, and successful sales techniques as they relate to various ETPs.
- Separately, product sponsors may host financial advisors for education and conferences at the fund company headquarters, regional office, or other locations. Likewise, occasionally, product sponsors will reimburse Wells Fargo Advisors for expenses incurred by individual branch offices in connection with conducting training and educational meetings, conferences, or seminars for financial advisors and customers. Also, financial advisors may receive promotional items, meals, entertainment, or other noncash compensation from product sponsors.

Although training and education compensation is not related to individual transactions or assets held in client accounts, it is important to understand that, due to the total number of product sponsors whose products are offered by Wells Fargo Advisors, it is not possible for all product sponsors to participate in a single meeting or event. Consequently, those product sponsors who do participate in training or educational meetings, seminars, or other events gain an opportunity to build relationships with financial advisors; these relationships could lead to additional sales of that particular fund company's products.

ETP sponsor policies can be found in an ETP's prospectus, which is available on request from the ETP product sponsor. If you have any questions about these practices, please contact your financial advisor.

Data agreements

Wells Fargo Advisors also provides aggregated sales data to ETF sponsors relating specifically to such sponsor's ETFs. The annual payment is \$650,000 for ETF sponsors wishing to purchase such data. This presents a conflict of interest for Wells Fargo Advisors and its financial advisors to the extent it leads us to focus more on sponsors that purchase the ETF data over those that do not. To mitigate this conflict, our financial advisors do not receive any additional compensation for recommending ETFs from sponsors that purchase the data.

Potential conflicts of interest associated with additional compensation arrangements

Clients should understand that reimbursements received for training and education varies between product sponsors. Accordingly, a potential conflict of interest exists when Wells Fargo Advisors receives more reimbursement from one product sponsor/fund than it receives from peer product sponsors/peer funds.

Wells Fargo Advisors has adopted policies reasonably designed to control and limit these potential conflicts of interest. These policies include, but are not limited to, the following:

- Require training and education and data agreements to be in writing, and prohibit agreements or provisions that call for Wells Fargo Advisors to provide preferential marketing and promotional treatment to a product sponsor as a condition of paying or receiving these fees.
- Prohibit the sharing of any portion of training and education and data to be shared with financial advisors in their role as a financial advisor.
- Require reimbursement payments for general educational and training expenses and for expenses associated with conducting individual branch office training, and educational activities to be recorded and approved.
- Limit the annual dollar value of gifts or other noncash items that product sponsors and their representatives can provide to financial advisors.

It is important for you to understand that almost every fund that is sold by Wells Fargo Advisors provides some degree of educational and training reimbursement to Wells Fargo Advisors and its financial advisors. For example, if you attend training or educational meetings with your financial advisor and a representative of a product sponsor is in attendance, you should assume that the product sponsor has paid or reimbursed Wells Fargo Advisors for part or all of the total costs of the meeting or event.

Wells Fargo Advisors offers a wide variety of ETPs for our financial advisors to sell or recommend, including funds that do not compensate Wells Fargo Advisors for any or all of the services above. Such is not a prerequisite for a fund to be made available through Wells Fargo Advisors.

Affiliate relationships with ETP companies

Wells Fargo & Company (Wells Fargo), one of the largest financial holding companies in the United States, provides a wide range of financial services through its subsidiaries and affiliates, including Wells Fargo Advisors. These other relationships provide financial and other benefits to Wells Fargo as well as Wells Fargo Advisors. These relationships include the following services:

- Wells Fargo, through its affiliates, licenses indices to ETP sponsors and receives licensing compensation from the sponsors.

Within the division that operates in Wells Fargo Bank financial centers and Wells Fargo branches, financial advisors can assist you with your ETP investment needs. A licensed banker is a Wells Fargo Bank associate who is registered with Wells Fargo Advisors. Licensed bankers may refer you to a financial advisor. In these instances, the financial advisor and licensed banker may be compensated for the sale of an ETP. Referrals and recommendations are made independent of compensation arrangements and based solely on the client's needs and objectives.

Your relationship with Wells Fargo & Company

Wells Fargo & Company appreciates your confidence and wants to make your brokerage and banking relationships clear and convenient for you. Your Wells Fargo Advisors financial advisor may serve as your relationship manager not only for your brokerage accounts and services with Wells Fargo Advisors, but also for products and services with Wells Fargo Bank, N.A., including trust accounts of which you may be a beneficiary or agency accounts in which you may have an interest.

Additional information

You'll find more information about ETPs, by visiting the following websites.

Wells Fargo Advisors

wellsfargoadvisors.com

Financial Industry Regulatory Authority (FINRA)

finra.org

U.S. Securities and Exchange Commission

sec.gov

Securities Industry and Financial Markets Association (SIFMA)

sifma.org

The responsibilities of Wells Fargo Advisors and your financial advisor, when acting in a brokerage or investment advisory capacity or in introducing you to a banking product or service, are different from the responsibilities of Wells Fargo Bank and your financial advisor when acting in a role as relationship manager for a Wells Fargo Bank trust or agency account. Your financial advisor, in a brokerage or investment advisory capacity, may recommend or assist you with a transaction that does not concern the Wells Fargo Bank trust or agency account for which he or she will be compensated. If you decide to enter into such a transaction, you will receive specific disclosures in connection with the transaction, including all relevant information and a description of the compensation that your financial advisor will receive. You will have the opportunity to ask for more information about the compensation to your financial advisor on such a transaction.

If you have questions about any product or service offered or what role your financial advisor or any other Wells Fargo team member is serving, or what compensation is being paid with respect to any product or service, please ask your relationship manager or financial advisor.

Wells Fargo Advisors has an incentive to make available the product providing us with the higher compensation. Mutual funds typically pay additional compensation to us that ETPs do not. When certain mutual funds and ETPs are comparable with respect to investment strategy or similar in other respects, the difference in financial arrangements between ETPs and mutual funds creates a conflict of interest in that we have an incentive to make only the mutual fund and not the similarly situated ETP available to you, even though the comparable ETP may be less expensive for you.

Before buying any ETP, it is important for you to read and understand the ETP's prospectus. If you have any questions about a specific ETP, or the information in the ETP's prospectus, contact your financial advisor. Additionally, to learn more about ETPs in general, contact your financial advisor or visit the following websites:

Wells Fargo Advisors: wellsfargoadvisors.com

Investment Company Institute: ici.org

Financial Industry Regulatory Authority: finra.org

Securities and Exchange Commission: sec.gov