

A guide to investing in private capital and private real estate funds

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 and liquidity needs with your financial advisor. This guide will help you better understand the typical features and costs associated with investments in private capital and private real estate funds, as well as how your financial advisor and Wells Fargo Advisors are compensated when you invest in these products. For a description of any particular private capital or private real estate fund, you should read the private placement memorandum (PPM) or offering documents for that fund. A PPM is a securities disclosure document that contains a complete description of the security and the terms of sale in addition to information about the issuer's financial situation, risks of investment, and other details.

What is private capital/private real estate?

Private capital investments are investments in the equity or debt of private, non-publicly traded companies. Private equity and private debt are sub-sets of private capital. While private equity investments focus on equity stakes in various types of companies and transactions, private debt involves investing in privately negotiated debt of private companies.

Private real estate is an investment that uses an active management strategy consisting of both direct and secondary ownership of equity and debt interests in various types of real property. Often diversified across property types and locations, strategies can range from moderate repositioning or releasing of properties to new development or extensive redevelopment.

There is a long history of institutional investment in real estate through direct ownership of property and pooled investment funds. Institutional real estate investments began mostly in core real estate; however, market conditions in the early 1990s and in recent years have led to the emergence of certain funds aimed at taking advantage of falling property prices to acquire assets at what are hoped to be significant discounts.

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.

Private capital and private real estate funds

Though private capital investments are not usually available to the general public, they are accessible to institutional investors and qualified high net worth individuals through private capital funds, usually organized as limited partnerships. These partnerships seek investors called limited partners and pool investor capital to create private investment funds for the general partner(s) to manage. Many private capital fund strategies exist, including venture capital, leveraged buyout and mezzanine financing, which are discussed more fully below.

A private capital fund's success depends on the ability of its "portfolio companies" (the companies that comprise the fund's portfolio) to increase in value after a period of time (usually several years) and the fund's ability to dispose of its holdings. The fund's management often adds to this process by playing an active role in the portfolio companies, such as assisting the portfolio companies in achieving operating efficiencies, developing products or services, or reorganizing. Afterward, if a portfolio company increases in value, the private capital fund may seek to dispose of its investment, usually through the sale of the company to an acquirer or in a public offering of the portfolio company stock. The proceeds of these sales are generally distributed to the private equity fund's investors.

Private real estate investments are typically made through private equity real estate funds. These funds usually have a seven- to ten-year life span consisting of a two- to three-year investment period where properties are acquired, then a holding period where active asset management is carried out and the properties are sold. These funds will generally have more flexibility than a real estate mutual fund in the types of investments they make, as well as a potential for greater concentration and exposure.

Capital commitment. In a private capital or private real estate fund, the fund's managers can seek capital from a number of institutional and/or qualified high net worth individual investors through "capital commitments," which can be a fairly large investment. A private capital or private real estate fund is generally a closed-end fund, which means that, after one or more fundraising stages (called "closings"), new investors are not accepted. A fund will not launch if it does not receive a minimum level of capital commitments.

Capital calls. For the most part, private capital and private real estate funds are “needs-based” investments. This means that partners of the fund will commit to giving the fund manager installments of capital, up to a predetermined dollar amount, on an as-needed basis. As investment opportunities are identified, the fund’s managers will send investors a formal notice to submit the money they have committed to the program. This formal notice is referred to as a “capital call” and is a contractual obligation that each partner must satisfy.

A private capital or private real estate fund's offering documents typically provide a number of potential actions against investors who fail to meet capital calls. For example, a fund may require defaulting investors to forfeit entire ownership interest in the fund and offer the other fund investors the ability to purchase the forfeited interest.

Capital distributions. Over the long term, the investments in companies that the managers make in the portfolio may become a realized profit to the fund if those privately held companies are sold, merged, recapitalized or brought to the public market at a higher value. If the fund makes such a profit, the private capital or private real estate fund will typically dispense those proceeds to its partners on a pro-rata basis through a capital distribution. This is how investors are paid for their involvement in the fund.

Managers of private capital and private real estate funds may also choose to withhold capital distributions as a way of reducing the total amount of future funding required by its individual partners. In other words, if the program’s investors have not fully funded the partnership up to their total committed amounts, the amount on the next capital call can be reduced in direct proportion to the withheld capital distribution.

Private capital investment strategies

There are many different strategies associated with private capital investments. The most common strategies include leveraged buyouts, venture capital, special situations and mezzanine financing. Managers who specialize in some of these strategies may also target the application of their investment dollars and expertise over a number of different points in a company’s life cycle. Such points might include early seeding, start-up, expansion or replacement capital.

Leveraged buyouts (LBO). A buyout occurs when a private equity fund or company takes control of another company’s assets and/or operations by purchasing a majority of the voting stock of the target company. A “leveraged” buyout (LBO) occurs when a considerable amount of the proceeds used to make the purchase of the portfolio company’s equity come from borrowed capital. In some cases, the acquiring body in an LBO may pledge the assets of the target company as collateral to secure the loan.

Venture capital (VC). This is a term used to describe early-stage investing, when a fund invests in small businesses or start-up companies that demonstrate above-average growth potential. Portfolio companies in a VC fund can often benefit from the specialized skill sets and managerial expertise of the VC fund’s managers.

Special situations. This strategy involves investing in a company based on the belief that its value will go up due to a specific anticipated event related to the company. Such events may include shifting industry trends or changing government regulations.

Mezzanine financing. Sometimes referred to as “late-stage venture capital,” this is subordinate debt financing where the private equity fund would become a debt holder in a company and would typically have equity conversion features (for example, options, warrants or rights).

Often viewed as the last sequence in financing before an IPO, mezzanine financiers hope for capital appreciation resulting from a successful initial offering of the company’s shares to the public.

Early seeding. Sometimes referred to as “seed capital,” investors at the earliest level of a company’s life cycle are often providing the initial financing to fund a business or project that is currently at the concept stage. Private equity managers who invest at this level often provide funding for market research and/or testing for proof-of-concept to determine the feasibility of the planned business or project.

By providing funding for concept research, private equity managers are taking on the highest levels of risk while hoping to benefit from the potential growth that ground floor ownership occasionally provides should these companies and/or projects succeed.

Start-up. Most companies in the initial or “start-up” phase of their development life cycle have yet to make a profit. These companies may be either just forming as a brand new company, or they may be newly formed, but have probably not sold or marketed any of their products. Emerging companies such as these may benefit from the investment of private equity managers who, in addition to infusing vital capital, may also be able to provide expertise to help these start-ups bring their products to market.

Characterized as high risk, private equity managers may participate at this level with the hopes of making a potentially large return on their investment as these companies grow and become profitable.

Expansion. As companies enter their adolescent period, they could be starting to make a profit, but they may need additional capital to grow and mature. Therefore, private capital investors may choose to infuse capital at this stage of a company’s life cycle to help grow production capacity and/or increase the company’s ability to market the product. Some private capital managers seek rescue candidates for whom the additional financing could create a turnaround investment situation. Although expansion capital carries unique risks, this category is generally considered to involve less risk than the others, because it typically focuses on established companies rather than the early seeding or start-up financing of new companies. The potential appreciation in value for private equity managers in expansion financing comes from internal appreciation of the target companies.

Replacement capital. Replacement capital is a form of refinancing that typically occurs when a company’s management seeks to free up its invested capital by selling its ownership to private investors.

Private real estate investment strategies

Private real estate funds generally use one of the following three investment strategies: Core-Plus, Value Added or Opportunistic.

Core-plus. This is generally considered the most conservative strategy, characterized by lower risk and lower return potential. The fund will generally invest in higher quality properties, with some of these properties requiring some form of enhancement or value-added element.

Value added. This is a moderate-risk, medium-return strategy. Typically, this strategy involves managers buying properties, making some improvements and selling at an opportune time for a gain. Value-added improvements can range from solving management or operational problems to physical improvements to solving capital constraints.

Opportunistic. Considered the most aggressive, this is a high-risk, high-return potential strategy. The properties often require a high degree of enhancement and generally include investments in development, raw land and niche property sectors.

Investment characteristics

Private capital and private real estate funds have the following characteristics:

“Absolute” returns. Most private capital and private real estate funds seek to achieve positive or “absolute” returns regardless of the market environment (rather than merely striving to “beat” or outperform a market index). It is important to note that, in seeking to achieve an absolute performance, funds may use sophisticated and high-risk investment strategies. Private capital and private real estate funds may also use incentive-based compensation, such as “carried interest” (a share of any profits that the general partners receive as compensation), as encouragement for managers to achieve annual net cash returns.

Use of leverage. Private capital managers can structure the debt of their portfolio companies in a manner that may expand earnings and create increased shareholder value. This is particularly true in buyout funds where the private capital managers may have the ability to exert influence over the companies in their portfolios. Under these circumstances, private capital funds can apply their expertise to utilize a full range of company-specific borrowing options ranging from senior secured debt to high-yield debt.

Because the individual companies within the portfolio rather than the fund itself employ these strategies, the private capital manager can insulate each company from the default risk of the others. The intended result for investors would be the enhanced return potential due to the use of leverage with the downside risk of leverage being limited to segments of the portfolio and not the entire fund. Because many private capital 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.

Private real estate funds may employ leverage as a means to enhance returns, but leverage is typically not the exclusive investment strategy.

The potential benefit of leverage is that it can increase buying power while amplifying investment returns. Leverage also increases risk, because it magnifies negative returns if investments are poorly underwritten or executed and/or market conditions deteriorate. Leverage should be viewed as a way to potentially improve returns on an already sound investment strategy.

Historically low correlation* to traditional asset classes. Private capital and private real estate funds generally attempt to provide returns independent of (or not correlated to) traditional asset classes. As a result of the low correlation to traditional asset classes, investments in private capital or private real estate securities may increase the diversification of an overall portfolio.

Investor characteristics

Private capital and private real estate funds are not appropriate for all investors. Prospective investors are required to meet minimum financial eligibility guidelines (typically “accredited investor” or “qualified purchaser” requirements) to invest in private capital or private real estate funds. You should evaluate your individual financial condition and your ability to tolerate risk before you invest in these funds.

Because private capital and private real estate funds are not registered with the Securities and Exchange Commission (SEC), they can offer or sell securities to only certain types of individuals known as “accredited investors.” Accredited investors are defined as an individual with at least \$1 million (exclusive of the value of the primary residence) in individual or joint net worth or individual annual income of at least \$200,000. Also included are couples with 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 allowed to an “accredited U.S. institutional investor,” which is defined as someone who has at least \$5 million in investable assets.

Though requirements may vary by fund, most offerings at Wells Fargo Advisors may require investors to meet SEC guidelines of a “qualified purchaser,” which require that U.S. individual investors have at least \$5 million in investable net worth in order to be eligible to invest in a private capital or private real estate fund. U.S. entities should have at least \$25 million in investable assets.

In the case of offshore private capital or private real estate funds and other unregistered funds, the financial eligibility requirements may be lower than those listed above.

Prior to investing in private capital or private real estate, it is important to remember that regardless of your ability to qualify financially to invest in these products, you must fully understand the products’ risks and characteristics and be capable of tolerating the risk involved with the investment — including the potential loss of the entire investment.

* Correlation is the tendency for the returns of two assets to move together relative to their average. The measurement can range from -1 (perfect negative correlation, one goes up the other down) to 1 (perfect positive correlation, both moving in same direction). A correlation of 0 means no relationship can be found between the movements in the assets’ performance. There is no guarantee that historically low correlation will continue in the future.

Diversification. Wells Fargo Advisors 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, particularly in private equity or private real estate funds. It is important to note asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or protect against loss.

Risks

Long-term investment. Unlike mutual funds, which generally invest in publicly traded securities that are relatively liquid, private capital funds generally invest in large amounts of illiquid securities from private companies. Depending on the strategy used, private real estate funds will have illiquid underlying investments that may not be easily sold, and investors may have to wait for improvements or development before any redemption. Given the illiquid nature of the underlying purchases made by private capital and private real estate managers, private capital and private real estate funds are considered long-term investments. Private capital funds are generally set up as 10- to 15-year investments with little or no provision for investor redemptions. Private real estate funds are generally seven- to ten-year investments and also have limited provisions for redemptions. Although secondary markets may provide a liquidity option in limited circumstances, the amount you will receive typically is discounted to current valuations. Wells Fargo Advisors does not operate a secondary market and does not receive compensation for transactions in the secondary market. With long-term investments, you should consider your financial ability to bear large fluctuations in value and hold these investments over a number of years.

Difficult valuation assessment. The portfolio holdings in private capital and private real estate funds may be difficult to value, because they are not usually quoted or traded on any financial market or exchange. As such, no easily available market prices for most of a fund's holdings are available. Additionally, it may be hard to quantify the impact a manager has had on underlying investments until those investments are sold.

Lack of liquidity. Private capital and private real estate funds are not "liquid" (they can't be sold or exchanged for cash quickly or easily), and the interests are typically non-transferable without the consent of a fund's managing member. As a result, private capital and private real estate funds are generally only appropriate for sophisticated investors who have carefully considered their financial capability to hold these investments for the long term.

Capital call default consequences. Answering capital calls to provide managers with the pledged capital is a contractual obligation of each investor. Failure to meet this requirement in a timely manner could elicit significant adverse consequences, including, without limitation, the forfeiture of the defaulting investor's interest in the fund.

Leverage. Private capital and private real estate funds may use leverage in connection with certain investments or participate in investments with highly leveraged capital structures. Although the use of leverage may enhance returns and increase the number of investments that can be made, leverage also involves

a high degree of financial risk and may increase the exposure of such investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the assets underlying such investments.

Lack of transparency. Private capital and private real estate funds are not required to provide investors with information about their underlying holdings or provide periodic pricing and valuation information. Therefore, you are often putting your complete trust in the managers' abilities to meet their funds' objectives, without the benefit of knowing their investment selections. This lack of information may make it more difficult for investors to evaluate the risks associated with the funds.

Manager risk. Private capital and private real estate fund managers have total investment authority over their funds, and the managers' skill is normally responsible for the investment returns. Therefore, if the founder or key person departs, the returns of the fund may be impacted. Investors have no control or influence in the management of the fund, although they will receive periodic reports from the fund manager. Also, your investment in one fund that uses a generally similar investment strategy as another fund could lessen your overall diversification, and consequently, increase your investment risk.

Regulation. Private capital and private real estate funds are subject to fewer regulatory requirements than mutual funds and other registered investment company products and thus may offer fewer legal protections than you would have if you invested in more traditional investments.

Tax treatment

Generally, investors in private capital and private real estate funds are subject to income taxes on the income and/or capital gains distributed to them from those funds. In some years, investors' tax liabilities may exceed any distributions received from the funds. Additionally, investors may be subject to various limitations on their ability to use their allowable share of deductions and losses from the funds (for example, passive loss limitations, investment interest limitations, capital loss limitations and limitations on the deductibility of miscellaneous itemized deductions).

In retirement accounts such as IRAs, taxes are deferred until distributions are taken from the account. Investors using retirement accounts or tax-exempt entities, such as endowments or foundations, need to be aware that private equity and private real estate funds may produce unrelated business taxable income (UBTI), which may subject the retirement plan or tax-exempt entity to taxation. In instances where tax-sensitive private capital and private real estate funds are available, retirement account or tax-exempt investors are encouraged to consider the potential advantages of using such funds for their private capital and private real estate allocation. Investors should consult with their tax advisors to consider the potential impact of UBTI.

Private capital and private real estate funds can be tax-inefficient vehicles and should be scrutinized for tax consequences before an investment is made. There are a number of adverse tax consequences that should be taken into account when considering an investment in private capital or private real estate funds. Most are organized as limited partnerships (LPs) or limited liability companies (LLCs). This structure pursues a "pass-through taxation" strategy

where taxes are “passed through” to the owners, who then report loss or income on their personal income tax returns. All domestic private capital and private real estate funds send their investors Schedule K-1 tax statements, which are typically issued later than 1099s. For this reason, investors may need to file a tax extension for every year of involvement with the fund.

Wells Fargo Advisors and its affiliates are not tax and/or legal advisors. Because of the complex tax reporting requirements associated with private equity and private real estate funds, investors should consult with their tax advisor or legal advisor before investing.

Costs of investing in private capital and private real estate funds

Expenses associated with private capital and private real estate funds are significantly higher than many other traditional investment vehicles. There are no limits on the fees private capital or private real estate funds can charge investors, and several types of fees and charges are associated with these funds. You need to understand these expenses before investing. Costs will reduce the value of your total investment and your return. Investors should analyze the added cost against the benefit of diversification obtained by investing in private equity and private real estate funds.

All expenses are disclosed in the fund “offering documents” (documents provided by a fund that explain its objectives, risks, terms of investment and other policies), and you should be aware of these expenses. Typical expenses include, but are not limited to, the following:

Performance or incentive fee. In addition to the annual management fee, most private capital and private real estate funds charge a performance-based fee referred to as “carried interest.” This fee is usually a fixed percentage of the performance and typically accrues only after the fund’s net returns clear a predefined hurdle rate of return.

As an example, assume that a private capital fund has a carried interest charge of 20% and a pre-established 8% hurdle rate. A total return of 10% (net of management fee) by the fund in any given year would entitle the manager to collect 20% (performance incentive fee) on 2% of the profits or, in other words, those returns that were in excess of its 8% hurdle rate. This would result in a total net return to investors of 9.6%. A performance fee, such as the one described, could motivate a fund manager to take greater risks in the hope of generating a larger return and, in turn, receiving a higher fee.

Placement fee. The placement fee is a front-end sales charge (a sales charge that must be paid immediately upon purchase) paid to the placement agent. In turn, the agent may pay a portion of those fees to affiliated or unaffiliated registered broker-dealers or other entities involved in the offer and sale of the private capital or private real estate fund interests. Wells Fargo Advisors receives a portion of the placement fee to compensate its financial advisors.

Management fee. Investors are charged an annual management fee on the value of their investment. This fee is the cost of a fund manager making the investment decisions for you. The fund manager typically receives a fee of 1% to 2% of net assets, although this amount depends on various factors, including the type of fund.

Transaction and administrative expenses. As limited partners, investors are charged a pro-rated percentage (based on their investment) of all transaction and administrative expenses incurred by the fund. In addition to the fees outlined in the offering documents, Wells Fargo Advisors may charge a transaction fee.

Trail fees. Some funds may charge trail fees. Trail fees, while generally considered operating expenses, are not paid directly as a fee. Instead they are deducted from the fund's assets, and will reduce investment returns. These fees are used for marketing and distribution expenses, which may include compensating financial advisors or other investment professionals.

Fund of funds fees. Some funds may be structured as a fund of funds (FOF) where there are two layers of management fees plus an incentive fees being charged—one from the underlying private capital and private real estate fund managers and one from the FoF manager. This can result in comparably high fees and thus dilute net returns after fees.

How are your financial advisor and Wells Fargo Advisors compensated on private capital and private real estate funds?

Wells Fargo Advisors and your financial advisor receive payments depending on the fund, amount invested, and class you select. For helping you invest in these funds, Wells Fargo Advisors and your financial advisor are compensated in ways that vary depending on the selected investment. Funds pay Wells Fargo Advisors from the fees paid by you. Part of that payment then goes to your financial advisor, and the remainder is retained by Wells Fargo Advisors.

In brokerage accounts, financial advisors receive a portion of the placement fee and ongoing payments (known as “residuals” or “trails”) on private capital or private real estate fund units, as set by the subscription agreement (excluding advisory programs). In investment advisory fee-based accounts, your financial advisors' compensation is based on a percentage of the assets in the account rather than on concessions or trails, as mentioned above.

The compensation formula that determines the amount of payment to your financial advisor is generally the same for all funds. Some funds, however, may carry higher sales charges than others, which may create an incentive for the financial advisor to recommend those funds. Typically, registered funds have higher upfront sales charges and lower investment minimums than unregistered funds due to the costs associated with filing registration statements.

Intra-company compensation arrangements

Wells Fargo Advisors also receives compensation from other Wells Fargo & Company subsidiaries, including Global Alternative Investments (“GAI”), a division of Wells Fargo Investment Institute (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company. GAI, through its Alternative Strategies Platform (ASP), serves as the general partner and managing member for a number of private capital and private real estate offerings in a feeder fund structure at Wells Fargo Advisors.

- Wells Fargo Advisors may also receive direct compensation or indirect accounting credits in connection with the referral of certain business among Wells Fargo & Company subsidiaries.
- These intra-company arrangements include payments or credits to Wells Fargo Advisors for financial, distribution, administrative, and operational services that it provides to affiliated funds, their investment advisers, or distributors.
- Wells Fargo Advisors has compensation arrangements in place for assets under management with GAI Platform funds. As a result, Wells Fargo Advisors may benefit from increased sales of affiliated funds and products to a greater extent than from those provided by other firms without similar economic interest.

Additionally, within the division that operates in Wells Fargo Bank financial centers and some Wells Fargo branches, both financial advisors and licensed bankers can assist you with your private capital and private real estate fund investment needs. A licensed banker is a Wells Fargo Bank associate who is registered with Wells Fargo Advisors. Licensed bankers may also refer you to a financial advisor. In these instances, both the financial advisor and the licensed banker may be compensated for the sale of a private capital or private real estate fund, but the licensed banker may receive less through this referral arrangement than from a direct sale. Referrals and recommendations are made independent of compensation arrangements and based solely on the client’s needs and objectives.

At Wells Fargo Advisors, we receive payments from some of the companies whose private capital and private real estate funds we offer. These payments may be used to pay for training, educational conferences, meetings for our financial advisors, and meetings for our clients or prospective clients. The payments also provide marketing support, which is usually calculated as a percentage of fund sales or assets. These amounts are not part of the compensation formula for your financial advisor. We believe that these financial arrangements do not compromise the advice your financial advisor offers you. Additionally, these arrangements do not affect your sales charge.

Additional compensation received by Wells Fargo Advisors from fund sponsors and other fund relationships

In addition to transaction-based commissions received by Wells Fargo Advisors and your financial advisor, Wells Fargo Advisors may receive compensation paid by the fund companies, not related to individual transactions, for marketing support, educational, and training services performed by Wells Fargo Advisors in support of private capital and private real estate fund sales. This “non-commission” compensation received by Wells Fargo Advisors from private capital and private real estate fund companies can be broken down into four general categories:

- Revenue Sharing
- Intra-company compensation arrangements
- Training and education support
- Additional compensation for general services provided to funds

Revenue sharing

Revenue sharing may be paid by a private capital and private real estate fund’s investment advisor, distributor, or other fund affiliate to Wells Fargo Advisors for providing continuing due diligence, training, operations and systems support, and marketing to financial advisors and clients with respect to private capital and private real estate funds. Wells Fargo Advisors may receive revenue sharing payments from private capital and private real estate funds available in both transaction-based and/or investment advisory programs.

- The fees are paid from the fund affiliates’ or distributors’ revenues and profits, not from fund assets. However, fund affiliates’ or distributor revenues or profits may in part be derived from fees earned from services provided to the fund.

Wells Fargo Advisors may receive revenue sharing payments from private capital and private real estate fund companies available in both transaction-based and/or investment advisory programs.

Revenue sharing fees are usually paid by the fund’s investment advisor, or an affiliate as a percentage of Wells Fargo Advisors’ aggregate value of client assets invested in the fund. In certain instances, revenue sharing may be paid as a percentage of annual new sales to clients, or as a combination of a percentage of new sales and a percentage of aggregate client assets. The percentage amounts are typically established in terms of basis points (100 basis points equals 1%). For example, if Wells Fargo Advisors receives 10 basis points in revenue sharing for a given fund, it would receive \$10 for each \$10,000 of total assets in client accounts in the fund.

Wells Fargo Advisors may receive different revenue sharing rates from each private capital or real estate fund. However, certain funds may pay Wells Fargo Advisors a negotiated, fixed annual amount for revenue sharing, regardless of the amount of assets held in client accounts or in new sales to clients.

Private capital and private real estate fund policies can be found in a fund's offering document, which is available to accredited/qualified investors on request from the private equity or real estate fund company. Certain fund sponsors paid GAI, who in turn paid Wells Fargo Advisors and/or Wells Fargo & Company in 2018, for marketing and/or other service fees. If you have any questions about these practices, please contact your financial advisor.

Other fund relationships

Wells Fargo & Company (Wells Fargo), one of the largest financial holding companies in the United States, provides a wide range of financial services to various fund companies 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.

Your relationship with Wells Fargo & Company

In the course of establishing annual sales targets for business planning purposes, sales with Wells Fargo affiliates are included in our goals. We intend, however, to make all recommendations independent of such sales goals and based solely on our obligations to consider each client's individual objectives and needs.

Talk to your financial advisor

Determining whether private capital or real estate funds 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 to your financial advisor today about how private capital and real estate funds may help you work toward your investment goals.

Private Capital Funds

Private equity and private debt funds, are not appropriate for all investors and are only open to "accredited" or "qualified" investors within the meaning of the U.S. securities laws. They are speculative, highly illiquid, and are designed for long-term investment, and not as trading vehicles. There is no assurance that any investment strategy pursued by the fund will be successful or that the fund will achieve its intended objective. Investments in these funds entail significant risks, volatility, and capital loss including the loss of the entire amount invested. The increased risk of investment lost is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund for which the fund does not represent a complete investment program.

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. Private capital funds are subject to market, funding, liquidity, capital, and other material risks.

Additional information

Determining whether private capital or private real estate is an appropriate investment strategy for you requires an in-depth evaluation of your individual financial situation and the objectives you want to achieve. Talk to your financial advisor today about how private capital and private real estate funds may help you work toward your investment goals, or visit the following websites:

Wells Fargo Advisors
wellsfargoadvisors.com

Financial Industry Regulatory Authority
finra.org

U.S. Securities and Exchange Commission
sec.gov

Securities Industry and Financial Markets Association
sifma.org

They use complex trading strategies, including hedging and leveraging through derivatives and short selling and other speculative investment practices. The performance and volatility of a private capital fund will be materially different from the performance of a traditional portfolio. 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. Private capital investments often demand long holding periods to allow for a turnaround and exit strategy. There is no assurance a secondary market will exist for interests and there may be restrictions on transferring such interests. Private capital funds involve other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Private real estate funds

Core investments in real estate are considered less risky and are characterized as having lower risk and lower return potential. There is no guarantee any investment strategy will be successful under all market conditions. The value of any property may decline as a result of a downturn in the property market, and economic and market conditions. The value-added strategy seeks to add value by making enhancements to properties. These properties may have operational issues and usually require additional leverage to acquire. There is no guarantee value appreciation will be achieved and the operating company may be forced to sell properties at a lower price than anticipated. An opportunistic investment style bears the highest level of risk among real estate strategies as it typically involve a significant amount of "value creation" through the development of underperforming properties in less competitive markets or other properties with unsustainable capital structures. Although these investments have the potential to generate income, there is no guarantee they will do so over their investment time periods. In addition, private real estate is considered illiquid, there is no assurance a secondary market will exist and there may be restrictions on transferring interests.

Since the opportunistic properties have little to no cash flows at time of acquisition, higher leverage is often employed and sponsors may be subject to less favorable debt terms and higher interest rates than more stabilized properties. All investments may be negatively impacted by varied economic and market condition which may be unpredictable.

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