WELLS FARGO Advisors

A guide to investing in privately offered managed futures funds

What you should know about managed futures funds

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 with your financial advisor. This guide will help you better understand the features and costs associated with privately offered managed futures funds, as well as how your financial advisor and Wells Fargo Advisors are compensated when you invest in these products. This guide is not an offer to purchase or sell a specific privately offered managed futures product. Any offer to purchase or sell a specific product will be made by the product's official offering documents.

What are futures?

Futures are standardized contracts between buyers and sellers, whereby each party agrees to deliver or accept delivery of a specified amount of a commodity or financial instrument at a predetermined time and place in the future. The futures contract itself locks in the price of the commodity or financial instrument to be exchanged on that defined date. The markets on which these contracts are based can include currencies, interest rates, metals, soft goods, agricultural products, and even market indexes.

Like the commodities or financial instruments they represent, futures contracts can be traded and therefore have a market value that may fluctuate depending on the shifting value of the underlying instrument. Futures are actively traded through a multitude of exchanges worldwide, and investors in the futures markets have the ability to participate in the commodity price swings or hedge current positions against them.

What are managed futures?

Managed futures refers to an industry comprised of professional money managers known as commodity trading advisors (CTAs) who use the global futures markets as an investment medium. These money managers (with certain exceptions) must register as CTAs with the U.S. government's Commodity Futures Trading Commission (CFTC); they must also register with the National Futures Association, a self-regulatory organization. CTAs manage client assets on a discretionary basis, which means the advisor can make investment decisions on behalf of the client.

Privately offered managed futures investments have been used by high net worth individuals and institutional investors for more than 40 years. Acceptance of this asset class has grown as investors seek greater diversity in their portfolios by increasing portfolio exposure to international investments and nonfinancial sectors such as commodities. Additionally, managed futures funds have historically offered investors diversification through investments with experienced managers across multiple global locations and/or sectors as the fund grows by pooling investors' collective monies into the fund. This broad exposure to a variety of futures markets generally allow fund managers to negotiate favorable fee arrangements and access more complete information than individual investors would have on their own.

The potential advantages of choosing to participate in futures through a privately offered managed futures fund may include:

- Professional management provided by fund managers with experience in the futures marketplace
- Diversification across numerous types of contracts and, potentially, across various trading styles, and asset classes that may be difficult to access directly
- Liquidity through scheduled redemption provisions at net asset value (NAV), which is the fund's market value per share
- No margin calls; limited partner status protects the investor from liability beyond the amount invested

However, you should remember that although investment managers seek to manage or control the overall risk of the investment, alternative investments such as managed futures are speculative, involve a high degree of risk, may have substantial charges, and are appropriate only for the investment of the high-risk capital portion of an investor's portfolio.

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.
- 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.

Features and characteristics

Potential for enhanced portfolio returns

The primary benefit of adding a managed futures component to a diversified portfolio is that it may help decrease overall portfolio volatility while offering the opportunity to enhance total portfolio returns. These two events may improve a portfolio's investment quality.

Opportunity for reduced portfolio volatility

The futures markets are highly volatile and risky, but adding a managed futures component to a diversified investment portfolio may actually help decrease volatility in the portfolio as a whole. This reduction of risk to a portfolio is possible because of the historically low or noncorrelation* of managed futures with stocks and bonds. Because managed futures generally have not followed or mirrored the fluctuations of other asset types, they may complement a portfolio of traditional stock and bond investments.

Although this information is compelling, you should remember that past performance is not indicative of future results and that historically low or noncorrelation may not continue in the future.

Potential to profit in both rising and falling markets

Because managers seek to take advantage of price trends in either direction, it is possible for managed futures to show gains in economic environments where other investments, such as stocks and bonds, are declining in value.

Access to global markets

The establishment of global futures exchanges and the accompanying increase in actively traded contract offerings have allowed managers to diversify their portfolios by global geography as well as by product. Managed futures funds can participate in more than 150 markets worldwide, including currencies, stock indexes, interest rates, agricultural products, precious and nonferrous metals, and energy products. Managers have the opportunity for profit potential and risk reduction among a broad array of historically noncorrelated markets.

Risks of investing in privately offered managed futures funds

Following are some of the most significant risks associated with investing in managed futures. The list is not exhaustive. Particular managed futures funds may involve other risks that will be disclosed in the official offering documents or in any supplement to those documents for the individual products.

* 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 and the other down) to 1 (perfect positive correlation, both moving in same direction). A correlation of 0 (noncorrelation) means no relationship can be found between the movements in the assets' performance.

Highly speculative—Investing in managed futures is highly speculative and it is impossible to predict long-term or short-term performance. An investor must be prepared to lose all, or a substantial amount, of their total investment. Managed futures funds will be subject to all of the risks associated with the investment in and trading of futures and other instruments. The value of such instruments may be extremely volatile, and may be influenced by, among other things, national and international political and economic events, currency exchange fluctuations, interest rates, government trade, and fiscal and monetary policies and actions.

Additionally, trading on foreign contract markets involves additional risks, including risks of inadequate or lack of regulation, exchange-rate fluctuations, and counterparty insolvency, as well as regulated investment controls which may adversely affect capital flows.

Manager risk—The managed futures fund manager has total trading authority over the fund. The use of a single advisor applying generally similar trading programs could mean lack of diversification and, consequently, higher risk. Furthermore, most single-managed futures funds are founded by an individual or partners. If the founder or key person leaves the fund for any reason, the underlying source of returns may be negatively impacted.

Neither you nor your financial advisor has any control or power in the management of the fund, although you will receive periodic reports from the fund manager. The value of the underlying positions may be transparent; however, the fund may not always provide all the information that you request, because certain information may be considered proprietary or otherwise confidential. This lack of information may make it more difficult for you to evaluate risks associated with the fund.

Limited liquidity—Privately offered managed futures funds have limited liquidity and are subject to restrictions on transferability and resale. Most managed futures funds restrict liquidity to monthly intervals. Managed futures funds also typically require a written redemption notice (notice that you want to redeem [cash in] your investment) as much as two weeks in advance of the desired redemption date.

Also, unlike mutual funds, there are no specific rules on managed futures fund pricing. Privately offered managed futures fund units may not be redeemable at your option, because no secondary market currently exists for the sale of managed futures fund units, and none is expected to develop. In other words, you may not be able to get the money you invested in the managed futures fund back until the next redemption period.

Volatility—Most managed futures funds are dependent on market trends to generate profits for investors. In the event of a reversal in market trends, managed futures funds can suffer heavy losses, which can be magnified by the use of leverage. Most managed futures funds are highly leveraged.

Leverage—One of the most salient features that distinguish managed futures funds from other pooled investment vehicles is the ability to leverage their assets (for example, futures contracts typically require the initial deposit of a small percentage of the value of that contract). Whatever the method of leverage, the impact on the fund is similar. Leverage can provide higher yields and potentially higher returns for managed futures fund investors, but it also increases overall risk and the volatility of the investment.

Leverage can have a significant impact on portfolio volatility. If the underlying markets are moving in the direction of the fund's positions, leverage can enhance a managed futures fund's appreciation; if the fund's positions are losing value, however, leverage can magnify the fund's losses.

Model risk—Most systematic managed futures funds are based on complex mathematical models that determine the trading decisions. There is little, if any, human intervention in daily trading activities of these managed futures. Mathematical models are limited in their ability to recognize rare and unpredictable events, such as extreme changes in the stock and bond markets, worldwide political crises, and natural disasters. In such scenarios, it is possible that the performance of such systematic models may suffer due to the lack of human intervention during such events.

Misallocation—Managed futures are highly risky, historically are not correlated to equity markets, and do not follow the same general market trends as equity securities. Managed futures funds should not be considered a substitute for equity investments.

Tax treatment

Generally, managed futures investors are subject to income taxes on the interest, dividends, and/or capital gains distributed to them from the fund. However, in retirement accounts such as individual retirement accounts (IRAs), taxes are deferred until distributions are taken from the account.

Managed futures may produce unrelated business taxable income (UBTI), as defined by the Internal Revenue Service (IRS). For most organizations, UBTI is income from a trade or business that is not substantially related to the basis of the organization's exemption. This may subject a tax-deferred account (such as a retirement plan or IRA or a tax-exempt entity such as a foundation or endowment) to taxation. In instances where tax-sensitive funds are available for tax-deferred accounts or tax-exempt entities, you are encouraged to consider the potential advantages of utilizing such a fund for a managed futures fund allocation. Please consult your tax advisor to consider the potential impact of UBTI on your investment.

Managed futures funds can be tax-inefficient vehicles, and you should analyze the tax consequences before making an investment. There are a number of adverse tax consequences that should be taken into account when considering an investment in managed futures funds.

Most managed futures are organized as limited partnerships (LPs) or limited liability companies (LLCs). Because of their structures, a "pass-through taxation" strategy is achieved (taxes are "passed through" to the owners, who then report loss or income on their personal income tax returns). Rather than a 1099, most domestic hedge funds and funds of funds produce annual tax information on Schedule K-1s that 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.

As a result of complex tax reporting requirements, and because neither Wells Fargo Advisors nor its affiliates are tax or legal advisors, you should consult with your tax or legal advisor to fully understand the tax implications associated with an investment in managed futures funds.

Costs of investing in managed futures funds

Expenses in privately offered managed futures funds can be significantly higher than comparable investment vehicles like mutual funds. Although all fees are disclosed in a fund's offering documents, there are no limits on the fees that a managed futures fund can charge its investors. There are several types of fees and charges associated with managed futures funds. You need to understand all these expenses before investing in these products, because costs will reduce the value of your total investment and the return on investment. All expenses are disclosed in the managed futures fund offering documents. The expenses can include, but are not limited to, the following:

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. The agent, in turn, 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 managed futures 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 having a managed futures fund manager make the investment decisions for you. Typically, the fund manager charges a fee of 1% or 2% of the net assets.

Performance fee—Most managed futures fund managers charge a performance-based fee. This fee is usually a fixed percentage of the performance results. Here is an example: If the managed futures fund manager returned 10% (net of management fee) in the first year, and the performance fee is 20% of new profits, the performance fee would be 2% (20% of the 10% return above the high water mark, which is the previous point of performance measurement the managed futures fund manager must exceed), resulting in a net return of 8%. It should be noted that no performance fees are charged while a fund's performance remains below a past high water mark. A performance fee could motivate a managed futures fund manager to take greater risks in the hope of generating a larger return to receive a higher fee.

Trail fees—Some registered managed futures 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.

Brokerage fee—The brokerage fee covers all brokerage, exchange, and clearing, as well as the National Futures Association fees, incurred in the trading of the fund. This fee is paid to the clearing agent who helps the fund execute the trades.

Transaction and administrative expenses—Investors are charged a prorated percentage (based on your 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.

Investor characteristics

Privately offered managed futures funds are not appropriate for all investors. Prospective investors are required to meet minimum financial eligibility guidelines to invest. You should evaluate your individual financial condition and your ability to tolerate risk before you invest in managed futures funds.

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" within the meaning of the U.S. securities laws. An accredited investor is 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 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.

In calculating net worth for purposes of the accredited investor under the net-worth test, generally an investor's equity in his or her primary residence is excluded. Investors must also reduce their net worth by: (i) any mortgage debt assumed on their primary residence in excess of the primary residence's fair market value (i.e., an underwater mortgage); and (ii) the total amount of any loan or additional indebtedness secured against their primary residence (e.g., a home equity loan or line of credit) incurred 60 days prior to purchasing a private placement managed futures fund. Depending on how the private fund is structured, qualifications may be required for qualified clients (individuals with net worth of $2.1 million or entities with total assets of $5 million), qualified eligible purchasers (individuals with investments of $2 million or entities with total assets of $5 million), and qualified purchasers (individuals with investable assets in excess of $5 million or entities with investable assets of $25 million), in addition to the appropriate requirements for accredited investors as explained in the offering document for that fund type.

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 managed futures. Although asset allocation can be an effective investment strategy, it cannot eliminate the risk of fluctuating prices and uncertain returns.

How your financial advisor and Wells Fargo Advisors are compensated on managed futures 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.

For most purchases, a financial advisor's compensation is based on the sales concession that is set by the funds and described in the offering documents. For this type of purchase, financial advisors also receive ongoing payments (known as "residuals" or "trails") on managed futures fund units, as set by the subscription agreement. In certain fee-based accounts, a financial advisor's compensation is based on a percentage of the assets in the account rather than on the concession or trails.

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 managed futures 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 managed futures 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 managed futures 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.

Additional compensation received by Wells Fargo Advisors from managed futures fund sponsors

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 managed futures fund sales. This "non-commission" compensation received by Wells Fargo Advisors from managed futures 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 managed futures 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 managed futures funds. Wells Fargo Advisors may receive revenue sharing payments from managed futures 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 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 hedge fund. However, certain managed futures 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.

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.

Managed futures fund policies can be found in a fund's offering document, which is available on request from the managed futures fund company for investors who meet appropriate requirements. Certain managed futures 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.

Additional information

To learn more about managed futures funds, ask your financial advisor or visit the following websites:

Wells Fargo Advisors
wellsfargoadvisors.com

Financial Industry Regulatory Authority (FINRA)
finra.org

U.S. Securities and Exchange Commission (SEC)
sec.gov

Securities Industry and Financial Markets Association (SIFMA)
sifma.org

Talk to your financial advisor

Determining whether managed futures 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 managed futures funds may help you work toward your investment goals.

Managed futures funds are not appropriate for all investors and are only open to "accredited" or "qualified" investors within the meaning of 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 a fund will be successful or that a 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. With limited exception, there is no secondary market for managed futures funds and none is expected to develop. Managed futures are not required to provide investors with information about their underlying holdings. As a result, the investor will be unable to monitor the fund's underlying holdings and to discern whether sub-fund investments are consistent with the fund's investment strategy or risk parameters. Other risks can include those associated with potential lack of diversification, restrictions on transferring interests, complex tax structures, delays in tax reporting, valuation of securities, and pricing. An investor should review the private placement memorandum, subscription agreement, and other related offering materials for complete information regarding terms, including all applicable fees, as well as the specific risks associated with a fund before investing.

Global Alternative Investments ("GAI") is a division of Wells Fargo Investment Institute, Inc. ("WFII"). WFII is a registered investment adviser and wholly-owned subsidiary of Wells Fargo & Company and provides investment advice to Wells Fargo Bank, N.A., Wells Fargo Advisors, and other Wells Fargo affiliates. Wells Fargo Bank, N.A. is a bank affiliate of Wells Fargo & Company. Global Alternative Investment Services, Inc. is a registered broker-dealer that provides wholesaling support services to GAI.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company.