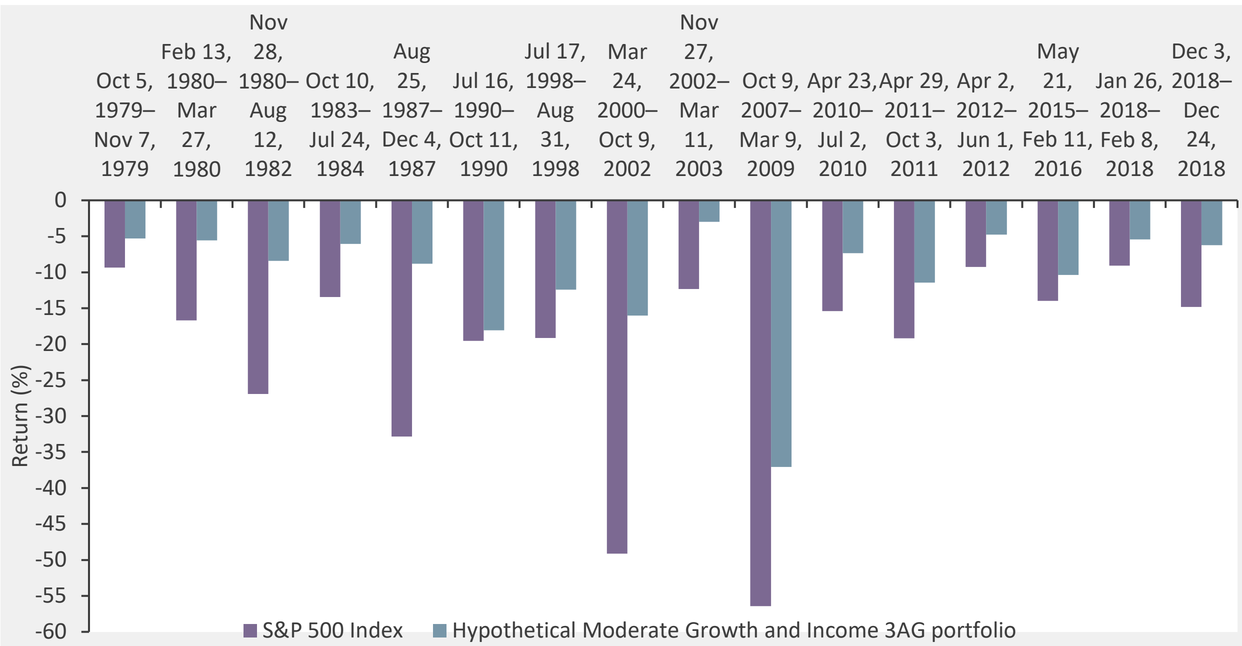
January 9, 2019

Diversification and December's Market Downturn



Sources: Morningstar Direct and Wells Fargo Investment Institute, as of December 31, 2018. Performance results for the Moderate Growth and Income 3AG Portfolio is hypothetical and is presented for illustrative purposes only. Index returns do not represent investment returns or the results of actual trading. Index returns reflect general market results, assume the reinvestment of dividends and other distributions, and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. An index is unmanaged and not available for direct investment. **Hypothetical and past performance does not guarantee future results.** Composition of the portfolio is provided on the next page.

Performance of the S&P 500 Index compared to a hypothetical diversified portfolio during market downturns since 1979

December 2018 was a difficult month for most investors. The S&P 500 Index dropped 14.8% from December 3 to December 24. Investors who entered December with portfolios diversified across three asset groups—equities, fixed income and real assets—may have experienced a less dramatic drop.

The chart shows bear markets (declines of 20% or more) and corrections (declines of 10% or more) over the last 40 years. While a hypothetical diversified portfolio (blue bar) couldn't escape negative returns, it would have outperformed the S&P 500 Index (purple bar) in all 16 downturns. December was no different—the diversified portfolio was down 6.2% versus the S&P 500 drop of 14.8%.

What it may mean for investors

We believe that staying fully invested in a globally diversified portfolio is a good way to approach the market conditions we expect in 2019. We suggest that investors consider rebalancing—by buying asset classes that have fallen below recommended long-term allocations and selling those that are higher.

Investment Strategy Team

This chart was excerpted from the First Quarter 2019 Market Charts.

Moderate Growth and Income 3AG Portfolio:

3% Bloomberg Barclays U.S. Treasury Bill 1–3 Month Index, 4% Bloomberg Barclays U.S. Aggregate (1–3 year), 16% Bloomberg Barclays U.S. Aggregate (5–7 year), 7% Bloomberg Barclays U.S. Aggregate (10+ year), 6% Bloomberg Barclays U.S. Corporate High Yield Bond Index, 3% JPM GBI Global Ex-U.S. TR USD Index, 5% JPM EMBI Global TR USD Index, 21% S&P 500 Index, 9% Russell Mid Cap TR USD Index, 8% Russell 2000 Index, 6% MSCI EAFE GR USD Index, 5% MSCI EM GR USD, 5% FTSE EPRA/NAREIT Developed TR USD Index, 2% Bloomberg Commodity Index.

Risk Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Definitions

Bloomberg Barclays U.S. Treasury Bills (1–3 Month) Index is representative of money markets.

Bloomberg Barclays U.S. Aggregate 1–3 Year Bond Index is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of one to three years.

Bloomberg Barclays U.S. Aggregate 5–7 Year Bond Index is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of five to seven years.

Bloomberg Barclays U.S. Aggregate 10+ Year Bond Index is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 10 years or longer.

Bloomberg Barclays U.S. Corporate High Yield Bond Index covers the U.S.-dollar-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB= or below. Included issues must have at least one year until final maturity.

Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually, weighted two-thirds by trading volume and one-third by world production, and weight-caps are applied at the commodity, sector, and group level for diversification.

FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs in developed countries worldwide.

J.P. Morgan GBI Global ex-U.S. Index (Unhedged) in USD is an unmanaged index market representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets.

J.P. Morgan EMBI Global Index (USD) is a U.S.-dollar-denominated, investible, market-cap-weighted index representing a broad universe of emerging market sovereign and quasi-sovereign debt. While products in the asset class have become more diverse, focusing on both local currency and corporate issuance, there is currently no widely accepted aggregate index reflecting the broader opportunity set available, although the asset class is evolving. By using the same index provider as the one used in the developed market bonds asset class, there is consistent categorization of countries among developed international bonds (ex-U.S.) and emerging market bonds.

MSCI EAFE Index is a free-float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets Index (MSCI EM GR) is a free-float-adjusted market-capitalization-weighted index designed to measure equity market performance of emerging markets.

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represents approximately 25% of the total market capitalization of the Russell 1000® Index.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value.

An index is unmanaged and not available for direct investment.

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