WELLS FARGO Advisors

A Guide to Investing in Private Capital and Private Real Estate Funds

What you should know before you invest

Before you make an investment decision, it is important for you to review and discuss with your financial advisor the following factors with respect to a recommendation to invest in private capital and private real estate funds:

- 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.

We have a responsibility to consider reasonably available alternatives, but we are not required to evaluate every possible alternative either within our products or outside the firm, nor are we required to offer the "best" or lowest cost product in making a recommendation. While cost is a factor that we take into consideration in making a recommendation, it is not the only factor.

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 detailed information about a particular private capital or private real estate fund, you should read the private placement memorandum (PPM) or prospectus and other offering documents for that fund. This guide is not an invitation to subscribe for interests in any Fund and is intended for educational and information purposes only.

What is a private capital and private real estate investment?

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.

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**

Private capital and private real estate funds

Private capital investments are not usually available to the general public, and are typically accessible to institutional investors and qualified high-net-worth individuals through private capital funds, which are usually organized as limited partnerships. These limited partnerships pool investor capital to create private investment funds, which are managed the general partner(s) of the funds. Investors in these funds are often referred to as "limited partners". Many private capital fund strategies exist, including venture capital, leveraged buyout and mezzanine financing, each of which are described more fully below.

A private capital fund's success depends on the ability of its "portfolio companies" (the companies that comprise the fund's investment 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 can play an active role in the fund's portfolio companies, such as assisting the portfolio companies in seeking to achieve operating efficiencies, development of products or services, and/or reorganizing. If a portfolio company increases in value, the private capital fund may seek to dispose of its investment position in the company, 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, after taking into account the fund's fees and expenses, are then generally distributed to the private equity fund's investors.

Private real estate investments are typically made through private equity real estate funds. These funds may have a life span of over ten years, 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 can make, as well as potential for greater concentration and exposure.

Private capital funds and certain private real estate funds are typically only available to a limited number of wealthy, financially sophisticated investors and generally do not advertise or publicly offer their securities. Private capital funds and certain types of private real estate funds typically do not i) register with the U.S. Securities and Exchange Commission (SEC) under the Investment Company Act of 1940 (the "**1940 Act**"), nor ii) register the fund's securities under the Securities Act of 1933 (the "**1933 Act**"). As a result, unregistered private capital and private real estate funds do not provide many of the investor protections that apply to registered investment companies and products. Certain types of private real estate funds are registered under the 1940 Act and the fund's securities may be registered under the 1933 Act. For information on a particular fund's registration status, please refer to the PPM or prospectus and offering documents for such fund.

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. Some fund managers may also apply their investment capital over the course of a number of different entry points in an underlying company's life cycle, which may include early seeding, start-up, expansion and/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 loaned 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, which is when a fund invests in small businesses or start-up companies that demonstrate 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 subordinated debt financing where the private equity fund becomes a debt holder in a company and typically has equity conversion features (for example, options, warrants or rights). Often viewed as the last sequence in financing before an IPO, mezzanine financers 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 likely 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 typically 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 seeking to sell 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

Characteristics of private capital and private real estate funds include, but are not limited to:

"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 managers 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.

Historically low correlation[1] 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.

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 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"), additional new investors are not accepted. A fund will not launch if it does not receive a minimum level of capital commitments.

Capital calls. Generally, private capital and private real estate funds are "needs-based" investments. This means that limited 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 that they committed to the fund. This formal notice is referred to as a "capital call" and is a contractual obligation that each limited partner must satisfy. There can be serious consequences for an investor who fails to satisfy a capital call. 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 their 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 fund's investments in its underlying portfolio companies may become a realized profit to the fund if those 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 may, at its discretion, distribute those proceeds to its limited partners on a pro-rata basis through a capital distribution.

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. Stated differently, if the fund's investors have not fully funded the partnership up to their total committed amounts, the amount of the next capital call may be reduced in proportion to the withheld capital distribution.

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 to invest in private capital or private real estate funds. Please refer to the PPM or prospectus and other offering documents of a fund for the investor eligibility requirements for that fund. You should evaluate your individual financial condition and your ability to tolerate risk before you invest in these funds.

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[1] 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. Keep in mind that there is no guarantee that future correlations between asset classes will remain the same.

If the private capital fund or private real estate fund is not registered with SEC , it can offer or sell securities only to certain individuals and entities that qualify as “accredited investors” and/or “qualified purchasers”, or who otherwise qualify within the meaning of U.S. securities laws.

“Accredited investors” generally include individuals with a net worth of at least $1 million (exclusive of the value of the primary residence) individually or jointly with his or her spouse or spousal equivalent, or an individual who earns an individual annual income of at least $200,000, or a joint annual income with a spouse or spousal equivalent 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. An entity will generally qualify as an “accredited investor,” if it has at least $5 million in investable assets.

In calculating net worth for purposes of determining accredited investor qualification, 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 under-water mortgage); and (ii) the total amount of any loan or additional indebtedness secured against their primary residence (i.e., a home equity loan or line of credit) incurred 60 days prior to purchasing a fund.

A “qualified purchaser,” generally includes individuals with at least $5 million in investments, and entities (e.g., corporations, foundations) with at least $25 million in investments.

Though requirements may vary by fund, most offerings at Wells Fargo Advisors may require investors to meet SEC guidelines of a “qualified purchaser”.

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, it is important to recognize that regardless of your eligibility to invest in these products, you must understand the products’ risks and characteristics and be able to bear those risks — including the potential loss of the entire investment.

Diversification. Wells Fargo Advisors believes that you should diversify your investments. It is recommended that you observe an asset allocation strategy and not overweight your 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.

Certain risks

The risks listed below are some of the key risks associated with investing in private capital and private real estate funds; however, this is not an exhaustive list of risks for these products. Please refer to the specific fund’s offering documents for a more comprehensive and detailed listing of risks associated with that fund.

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 distribution or return of capital. Given the illiquid nature of the underlying purchases made by private capital and private real estate fund 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 may be over ten-year investments and also have limited to no provisions for redemptions. 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, market prices for a fund’s holdings are not readily available. Additionally, it may be difficult to quantify the impact a manager has had on underlying investments until those investments are sold.

Illiquidity and limited transferability. Private capital and real estate funds are not “liquid” (meaning they cannot 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 private funds, there may be no established secondary markets available for private capital and real estate fund interests and no such market may develop. Given this lack of an active trading market for fund interests, any sale to a replacement investor performed in accordance with the fund transfer restrictions may result in a discounted sale price relative to current valuations. Wells Fargo Advisors does not participate in, or receive compensation for, such secondary sales. As a result of this illiquidity and restrictions on transferability, private capital and real estate funds are generally only appropriate for sophisticated investors who have carefully considered their financial capability to bear large fluctuations in value and hold these investments for the long term.

Lack of portability. Most private equity and real estate offerings are unique to the selling firm. In most cases, if you or your financial advisor leave Wells Fargo Advisors, your investments will be unable to transfer to another firm.

Capital call default consequences. Meeting 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 result in 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 nor provide periodic pricing and valuation information. As a result, you are placing substantial reliance on the manager's ability to meet the fund's investment objectives, without transparency into the underlying 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 sole trading authority over their funds, and the managers' skill is responsible for the investment returns for a fund. 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 may 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.

Unregistered investments. While many private capital and private real estate fund managers register with the SEC as investment advisors, other managers of these funds are not registered, and so are subject to less regulatory oversight. Moreover, the private capital funds and certain private real estate funds themselves, along with the securities issued by each, are not registered with the SEC. Unregistered investments have less regulatory oversight, and may offer less investor protection. This lack of SEC regulation can make it difficult for you to independently verify information that is reported by the fund manager.

Other important risk information

Private capital funds. Private equity and private debt funds are not appropriate for all investors and are generally only open to "accredited investors" and/or "qualified purchasers" 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 loss 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.

These funds 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. Private capital investments often demand long holding periods to allow for a turnaround and exit strategy. There is generally no secondary market for interests and there typically are 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 involves 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 generally no secondary market for interests and there typically are restrictions on transferring such 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 conditions which may be unpredictable.

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. Investors should consult with their tax advisors to consider the potential impact of UBTI and any investment in a fund.

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. Investors should consult with their tax advisor or legal advisor before investing.

Costs of investing in private capital and private real estate funds

The 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 fees and expenses before investing. These fees and expenses 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 capital and private real estate funds.

All fees and expenses are typically disclosed in the fund offering documents. Prior to investing, you should carefully review these documents for details regarding the fees and expenses associated with the fund and to understand their impact on your potential investment. Typical fees and expenses include, but are not limited to, the following:

Performance or incentive 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 could motivate a fund manager to take greater risks in the hope of generating a larger return to receive a higher fee.

Placement fee (generally applied only to brokerage share classes). 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.

For brokerage accounts, you may pay Wells Fargo Advisors directly prior to investing into a private fund, or Wells Fargo Advisors may receive all or a portion of the placement fee that you otherwise pay to the fund or fund manager. Wells Fargo Advisors uses this 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 and for managing the fund. 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.

For brokerage accounts, all or a portion of the management fee may be paid to Wells Fargo Advisors to compensate it and your financial advisor for distribution and marketing, as well as for other continued services provided to the fund and your account. This fee is often called a "trail fee," which alternatively (or a portion of which) may be treated as a separate fund fee or expense. See the "trail fee" section below.

Transaction and administrative expenses. As limited partners, investors are charged a pro-rated percentage (based on their investment) of all transactional, administrative, and other expenses incurred by the fund. These expenses are not paid directly as a fee, but rather are deducted from the fund's assets, resulting in the reduction of investment returns.

Trail fees (generally applied only to brokerage share classes). As noted above, in lieu of paying trail fees from (or exclusively from) the management fee, some funds may charge trail fees. All or a portion of the trail fees are generally paid to fund placement agents for the on-going services provided to the fund and investor accounts.

For brokerage accounts, Wells Fargo Advisors generally receives all or a portion of the trail fee, which is used, in part, to compensate your financial advisor.

Fund of funds fees. Some investment offerings may be structured as a fund of funds (FOF) where there are two layers of management fees plus an incentive fee 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 your Financial Advisor and Wells Fargo Advisors are compensated on private capital funds and private real estate funds

Wells Fargo Advisors and your financial advisor receive payments depending on the investment offering, amount invested, and share class you select. For helping you invest in these investment offerings, Wells Fargo Advisors and your financial advisor are compensated in ways that vary depending on the selected investment. Investment products 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. This creates an incentive for us to recommend products that pay us additional compensation over those that do not pay additional compensation or that pay smaller amounts of additional compensation.

For brokerage accounts, a financial advisor's compensation is based on the sales fees mainly set by the investment offerings and described in the offering documents. For advisory accounts, a financial advisor's compensation is based on a percentage of the assets in the account rather than on the sales fees associated with a given investment product.

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

Intra-company compensation arrangements

Wells Fargo Advisors may also receive compensation from other Wells Fargo & Company subsidiaries, including direct compensation or indirect accounting credits in connection with the referral of certain business among such subsidiaries.

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 and 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 product 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 Parties

In addition to transaction-based commissions received by Wells Fargo Advisors and your financial advisor, Wells Fargo Advisors may receive compensation paid by investment managers, their affiliates, and/or in some instances a distributor (each a "Fund Party" and collectively, "Fund Parties"), that is not related to individual transactions, a specific share class, or account type.

This "non-commission" compensation received by Wells Fargo Advisors from a Fund Party may include payments for administrative support, operational support, training, educational conferences and meetings, and other general services provided to investment offerings, investment managers, or their affiliates. This compensation may be paid directly by a Fund Party or charged as a fund expense and can be broken down into general categories:

- Service compensation
- Revenue sharing
- Training and education support
- Data agreements

This additional compensation creates an incentive for us to recommend products where we receive this compensation over products for which we do not receive this compensation or receive smaller amounts of compensation. This additional compensation may also influence the selection of private capital and private real estate funds that Wells Fargo Advisors and its associates make available for recommendation. Wells Fargo Advisors reserves the right to restrict the private capital and private real estate funds that we offer to clients based on payment of additional compensation.

Please note these compensation arrangements may be described in the prospectus or PPM for each investment offered by Wells Fargo Advisors. We included this section to provide you with disclosure about the compensation agreements between Wells Fargo Advisors, Fund Parties, and associated potential conflicts of interest.

Service fees

These fees are paid by Fund Parties to compensate Wells Fargo Advisors for providing certain client account and administrative services for those Wells Fargo Advisors' clients holding private capital and private real estate funds. All or part of this compensation paid by Fund Parties may be rebated to client accounts holding interests of such fund in order to offset a portion of fees and expenses associated with the account. Examples of services provided include assisting in the administrative review of subscription documentation, operational support processes and other general services provided to investment managers. Service fees are paid either at an annual rate of up to 75 basis points of the aggregate net asset value of applicable shares held by clients of Wells Fargo Advisors; or at a one-time rate of up to 200 basis points of the client commitment at the time of commitment. These fees are often disclosed in investment offering documents, which you should refer to for additional information.

Revenue sharing

Revenue sharing may be paid by a Fund Party to Wells Fargo Advisors for providing certain services including subscription process support, ongoing training, operations and systems support, and marketing to financial advisors and clients with respect to the investment offering. These fees are typically paid to Wells Fargo Advisors from the Fund Parties' revenues and profits, not from the investment offering's assets. However, Fund Parties' revenues or profits may in part be derived from fees earned from services provided to an investment offering.

- Fund Parties pay Wells Fargo Advisors revenue sharing compensation either at an annual rate of up to 25 basis points of the aggregate net asset value of applicable shares held by clients of Wells Fargo Advisors; or at a one-time rate of up to 100 basis points. These fees are often disclosed in the investment's offering documents, which you should refer to for additional information.
- Please see the document titled "Wells Fargo Advisors Revenue Sharing Summary" for list of alternative fund managers and/or funds with whom Wells Fargo Advisors has a revenue sharing arrangement.

Revenue sharing rates can differ depending on the Fund Parties, and in some cases, we receive different revenue sharing rates for certain investment offerings offered by the same Fund Party. In addition, not all Fund Parties pay revenue sharing, as a result we have an incentive to include investment offerings on our platform and recommend investments or managers that pay revenue sharing and/or pay a higher rate.

Training and education compensation

These fees compensate Wells Fargo Advisors for providing client account and administrative services for those Wells Fargo Advisors' customer accounts holding certain private capital and/or private real estate funds. In recent years, Fund Parties have outsourced many of these operations functions to broker-dealers, such as Wells Fargo Advisors. Wells Fargo Advisors offers multiple ways for managers to provide training and education to our financial advisors in local branch offices or in larger group settings, including at the national level.

- Certain managers 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 investments offered by these managers versus those offered by managers which are not represented during support sessions.
- Wells Fargo Advisors selects the managers that participate in the training and education events based on a variety of qualitative and quantitative criteria and may provide supplemental sales and financial data to these firms. The subset of managers that offers this support and participates in nationally-organized training and education events may change periodically.
- Managers 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 offerings.
- Separately, managers may host financial advisors for education and conferences at the manager's headquarters, regional office, or other locations. Likewise, occasionally, managers will reimburse Wells Fargo Advisors for expenses incurred by individual branch offices in connection with conducting training and education meetings, conferences, or seminars for financial advisors and customers. Also, financial advisors may receive promotional items, meals, entertainment, or other noncash compensation from managers.

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 investment managers whose investment offerings are offered by Wells Fargo Advisors, it is not possible for all managers to participate in a single meeting or event. Consequently, those investment managers 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 investment manager's products.

Data agreements

Wells Fargo Advisors works with various alternative investment managers to provide aggregated alternative investments sales data for a fee. These payments are not attributable to a particular account or holding, nor does the service include any information identifiable to a particular account or holding. The payments may be up to $50,000 per year for data agreements from alternative investment managers. These payments are paid to us and retained by us and are not directly shared with financial advisors.

Other fund relationships

As a large financial holding company, Wells Fargo & Company provides a wide range of financial services to various fund companies through its subsidiaries and affiliates. A Wells Fargo Advisors affiliate may have lending, trading, investment banking, or other relationships with funds offered by Wells Fargo Advisors and their managers. A Wells Fargo Advisors affiliate may also have an equity interest in such fund managers. These other relationships with funds and fund managers across Wells Fargo & Company provide financial and other benefits to Wells Fargo & Company, as well as Wells Fargo Advisors.

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 seek to achieve. Talk to your legal or tax advisor and your financial advisor today about how private capital and real estate funds may help you work toward your investment goals.

Additional information

To learn more about private capital funds or private real estate funds, ask your financial advisor and/or visit the websites of the following organizations for further information:

- Wells Fargo Advisors
- Financial Industry Regulatory Authority
- U.S. Securities and Exchange Commission
- Securities Industry and Financial Markets Association

Disclosures

Alternative investments, such as private capital and private real estate funds, are not appropriate for all investors. They are speculative, highly illiquid, and are designed for long-term investment, and not as trading vehicles. These funds carry specific investor qualifications which can include high income and net-worth requirements as well as relatively high investment minimums. The high expenses associated with alternative investments must be offset by trading profits and other income which may not be realized. Unlike mutual funds, alternative investments are not subject to some of the regulations designed to protect investors and are not required to provide the same level of disclosure as would be received from a mutual fund. They trade in diverse complex strategies that are affected in different ways and at different times by changing market conditions. Strategies may, at times, be out of market favor for considerable periods with adverse consequences for the fund and the investor. An investment in these funds involve the risks inherent in an investment in securities and can include losses associated with speculative investment practices, including hedging and leveraging through derivatives, such as futures, options, swaps, short selling, investments in non-U.S. securities, “junk” bonds and illiquid investments. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. At times, a fund may be unable to sell certain of its illiquid investments without a substantial drop in price, if at all. Other risks can include those associated with potential lack of diversification, restrictions on transferring interests, no available secondary market, complex tax structures, delays in tax reporting, valuation of securities and pricing. An investment in private capital and private real estate funds carries additional risks including asset-based fees and expenses at the fund level and indirect fees, expenses and asset-based compensation of investment funds in which these funds invest, if applicable. An investor should review the private placement memorandum, subscription agreement and other offering materials for complete information regarding terms, including all applicable fees, as well as the specific risks associated with a fund before investing.

This material is for informational purposes only and does not constitute an offer to sell, or the solicitation of an offer to buy or sell any securities.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

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

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