

A primer on asset-backed commercial paper

Asset-backed commercial paper (ABCP) continues to be a substantial source of short-term financing for financial institutions and their customers. While the level of market outstandings is down from its 2007 peak, the credit quality of the sector remains strong. This primer will define ABCP, discuss its attractiveness as an eligible investment, and explain how the Wells Fargo Money Market Funds invest in this short-term vehicle.

What is ABCP?

ABCP is a form of short-term borrowing that is limited to a maturity of no more than 397 days. However, most ABCP is issued for a term of less than three months. ABCP allows financial institutions to offer an additional funding option for their customers by pooling their assets to back the paper. These assets may consist of trade receivables, consumer receivables, auto loans and leases, student loans, corporate loans, or other types of financial assets. ABCP programs typically have 100% liquidity support provided by a financial institution. Programs are classified as either single-seller or multi-seller programs. Single-seller programs will source all of their assets from a single entity (such as a bank or finance company), while multi-seller programs can source assets from different entities.

The basics of how an ABCP program works

Step 1: The ABCP program is established as a bankruptcy-remote, special-purpose vehicle (SPV) by a sponsor, which is typically a highly rated bank or other financial institution.

Step 2: The SPV purchases receivables or other assets into the program.

Step 3: The asset pools are structured to meet the credit and diversification requirements designated by the program sponsor. One objective of these requirements is to meet the rating standards set by the rating agencies.

Step 4: The purchase of these asset pools is funded by selling commercial paper to investors.

Step 5: Investors' maturities are typically repaid by the issuance of additional commercial paper. In the event that commercial paper can't be placed in the market, the program uses cash flow from its assets or may draw on a liquidity facility in order to repay investors.

Key features that make ABCP attractive

- 100% liquidity support
- Strong program sponsors
- Diversification from a variety of underlying asset types
- Transparency in monthly reporting
- Flexibility due to a range of short-term maturities

Our criteria for buying ABCP

The Wells Fargo Money Market Funds tend to invest in ABCP issued by large, well-established programs with 100% liquidity support from strong sponsors. In addition, the sponsors of the program often provide some form of credit enhancement to provide additional support. These programs are usually multi-seller programs, though there is nothing inherently deficient in the single-seller model.

Our process for evaluating ABCP

We are committed to maintaining a large, experienced credit analysis team that allows us to undertake rigorous credit analysis across investment types, industries, and individual credits. Our team consists of 11 analysts specifically dedicated to our money market funds, many with more than 20 years of industry experience. In addition, four of our senior analysts have been covering the ABCP market for more than a decade.

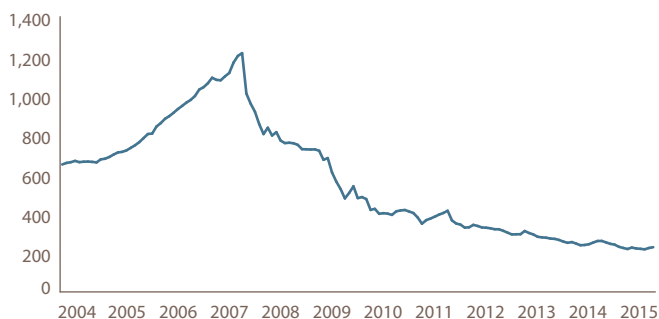
In regard to ABCP, our credit team continually performs due diligence on each approved ABCP program. This analysis includes an in-depth review of the administrator, underlying asset pools, and liquidity and credit support providers. Our analysts regularly monitor ABCP programs and holdings. They also perform periodic formal reviews, which can include an analysis of the

credit quality, sector, or geographic concentration and the performance of the underlying assets. Our due diligence includes consistent and ongoing meetings with conduit administrators. In addition, all approved ABCP programs have a 100% liquidity backstop from internally approved financial institutions.

ABCP market background

First launched in the 1980s, ABCP has been an important category in the short-term markets for decades. After strong growth for the first few decades, the ABCP market peaked in 2007 with approximately \$1.2 trillion outstanding. European ABCP represented another \$250 billion. A sharp decline in the amount of ABCP outstanding accompanied the general deleveraging process that followed the financial crisis. The lower levels of economic activity during the Great Recession led to a natural contraction in receivables that had been used as assets in ABCP conduits. More recently, regulatory changes and cost pressures lessened the attractiveness of this type of financing to sponsors, further curtailing the amount outstanding. Currently, less than \$250 billion in ABCP is outstanding.

Chart 1 | ABCP outstanding (\$B)

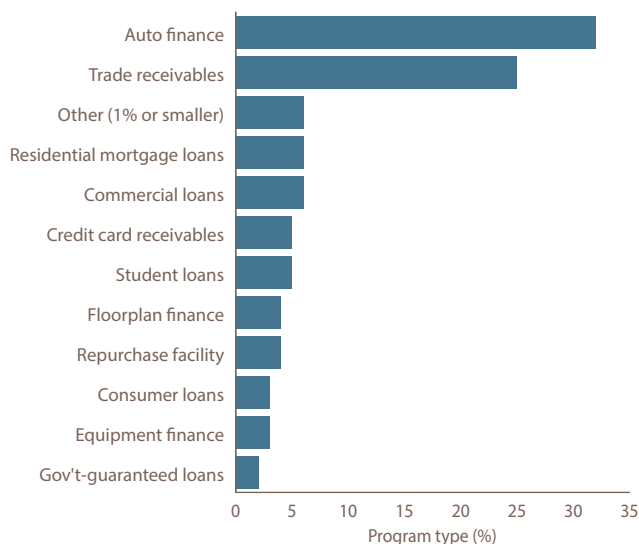


Source: Federal Reserve Board

Past performance is no guarantee of future results.

The types of assets underlying ABCP are relatively diverse and transparent. At the individual ABCP level, detailed performance data of the underlying assets is made available to investors on a monthly basis.

Chart 2 | ABCP by asset type



Source: Moody's Investors Service, Inc. (as of 3-31-15)

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For more information, please contact:

Institutional Sales Desk: **1-888-253-6584**

Website: **wellsfargofunds.com**

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Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and, if available, a summary prospectus, containing this and other information, visit wellsfargofunds.com.

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