

# Wells Fargo Bank, N.A.

## Collective Investment Funds

Annual Report 2019



**WELLS FARGO STABLE VALUE FUND J**

Financial Statements

December 31, 2019

(With Independent Auditors' Report Thereon)

# WELLS FARGO STABLE VALUE FUND J

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KPMG LLP  
4200 Wells Fargo Center  
90 South Seventh Street  
Minneapolis, MN 55402

## Independent Auditors' Report

To the Board of Directors  
Wells Fargo Bank, N.A.:

We have audited the accompanying financial statements of Wells Fargo Stable Value Fund J, which comprise the statement of assets and liabilities, including the schedule of investments, as of December 31, 2019, and the related statements of operations and changes in net assets for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wells Fargo Stable Value Fund J as of December 31, 2019, and the results of its operations and changes in its net assets for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Minneapolis, Minnesota  
April 29, 2020

**WELLS FARGO STABLE VALUE FUND J**

Statement of Assets and Liabilities

December 31, 2019

**Assets:**

Investment in Wells Fargo Stable Return Fund G, at fair value (cost: \$171,358,196) (note 2)	\$ 183,736,646
Total assets	<u>183,736,646</u>

**Liabilities:**

Accrued investment management and administrative service fees	379,144
Accrued 5500 filing fee	1,755
Accrued audit fee	3,038
Accrued trustee fee	4,624
Accrued other operating fees	486
Total liabilities	<u>389,047</u>

Net assets reflecting investments at fair value 183,347,599

Adjustment from fair value to contract value for underlying fully benefit-responsive investment contracts	<u>(2,893,490)</u>
Net assets, 3,716,136 units outstanding, \$48.56 unit value	<u><u>\$ 180,454,109</u></u>

See accompanying notes to financial statements.

**WELLS FARGO STABLE VALUE FUND J**

Statement of Operations

Year ended December 31, 2019

**Realized and unrealized gains (losses) on investments:**

Net realized gain on investment transactions (note 2)	\$ 17,251,386
Net change in unrealized appreciation (depreciation) of investments	<u>(11,963,101)</u>
Total gain on investments	<u>5,288,285</u>

**Expenses:**

Investment management and administrative service fees (note 3)	1,766,301
5500 filing fee	1,790
Audit fee	3,755
Trustee fee	62,340
Other operating fees	<u>6,492</u>
Total expenses	<u>1,840,678</u>
Net change in net assets resulting from operations	<u>\$ 3,447,607</u>

See accompanying notes to financial statements.

**WELLS FARGO STABLE VALUE FUND J**

Statement of Changes in Net Assets

Year ended December 31, 2019

**Increase/(decrease) in net assets from operations:**

Net realized gain on investment transactions	\$ 17,251,386
Net change in unrealized appreciation (depreciation) of investments	(11,963,101)
Expenses	<u>(1,840,678)</u>
Net change in net assets resulting from operations	<u>3,447,607</u>

**Participant unit transactions:**

Proceeds from issuance of 601,039 units	28,932,126
Payments for withdrawal of 2,169,196 units	<u>(104,294,600)</u>
Net change in net assets derived from participant unit transactions	<u>(75,362,474)</u>
Total change in net assets	(71,914,867)

**Net assets:**

Beginning of year (5,284,293 units)	<u>252,368,976</u>
End of year (3,716,136 units)	<u>\$ 180,454,109</u>

See accompanying notes to financial statements.



**WELLS FARGO STABLE VALUE FUND J**

## Schedule of Investments

December 31, 2019

<u>Name of issuer</u>	<u>Number of shares</u>	<u>Cost</u>	<u>Investment at fair value (a) (c)</u>	<u>Adjustment to contract value</u>	<u>Contract value (a)</u>
(Percentage represents the fair value of the investment category to net assets)					
Collective Trust Fund (101.8%):					
Wells Fargo Stable Return Fund G (b)	3,155,669	\$ <u>171,358,196</u>	<u>183,736,646</u>	<u>(2,893,490)</u>	<u>180,843,156</u>
Total investments in securities		\$ <u>171,358,196</u>	<u>183,736,646</u>	<u>(2,893,490)</u>	<u>180,843,156</u>

## Notes to Schedule of Investments:

- (a) Securities are valued by procedures described in note 2 to the financial statements.
- (b) Wells Fargo Stable Return Fund G is another Wells Fargo Bank, N.A. – sponsored collective trust fund.
- (c) Represents the Fund’s portion of the underlying fully benefit – responsive investment contracts at fair value held by Wells Fargo Stable Return Fund G.

See accompanying notes to financial statements.

## WELLS FARGO STABLE VALUE FUND J

### Notes to Financial Statements

December 31, 2019

#### (1) Fund Description

The Wells Fargo Stable Value Fund J (the Fund) is established, operated, and maintained for the collective investment and reinvestment of monies contributed thereto by Wells Fargo Bank, N.A. (the Trustee and Manager) as advised by Galliard Capital Management, Inc. (Galliard) for retirement plans (the participants) qualified under Section 401(a) and tax-exempt under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended.

##### *Investment Objective*

The Fund seeks to provide investors with a moderate level of stable income without principal volatility. There is no assurance that the Fund will achieve its objective.

#### (2) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Trustee in the preparation of the Fund's financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America and the Wells Fargo Bank Declaration of Trust Establishing Investment Funds for Employee Benefit Trusts, as amended and restated effective December 31, 2019. The Fund is an investment company and follows accounting and reporting guidance under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 946, "Financial Services – Investment Companies."

##### (a) *Investments*

At December 31, 2019, the Fund has invested all of its assets in Wells Fargo Stable Return Fund G, a collective trust fund sponsored by Wells Fargo Bank, N.A. The value of this investment is based on the underlying unit value reported by Wells Fargo Stable Return Fund G. As of December 31, 2019, the Fund held a 0.74% ownership interest in Wells Fargo Stable Return Fund G.

The Wells Fargo Stable Return Fund G invests in investment contracts and security-backed contracts. An investment contract is a contract issued by a financial institution to provide a stated rate of return to the buyer of the contract for a specified period of time. A security-backed contract has similar characteristics to a traditional investment contract and is comprised of two parts: the first part is a fixed-income security or portfolio of fixed-income securities; the second part is a contract value guarantee (wrapper) provided by a third party. Wrappers provide contract value payments for certain participant-initiated withdrawals and transfers, a floor crediting rate, and return of fully accrued contract value at maturity.

There are several risks specific to investment contracts. One of the primary risks involved is credit risk of the contract issuer. Credit risk for security-backed contracts includes risks arising from the potential inability of the issuer to meet the terms of the contract wrapper and the potential default of the underlying fixed-income securities. Secondly, liquidity is limited because of the unique characteristics of investment contracts and the absence of an actively traded secondary market. Interest rate risk is also present because rates may be fixed with these products.

Wells Fargo Stable Return Fund G is an investment company and follows accounting and reporting guidance under FASB ASC Topic 946, "Financial Services – Investment Companies." Wells Fargo

## WELLS FARGO STABLE VALUE FUND J

### Notes to Financial Statements

December 31, 2019

Stable Return Fund G carries its investments at contract value and applies the provisions of FASB ASC Sections 946-210-45 and 946-210-50 for stable value investment funds. These Sections affirm contract value accounting for fully benefit-responsive investment contracts and prohibits Wells Fargo Stable Return Fund G's acceptance of new contributions from defined benefit plans subsequent to January 15, 2006. These Subtopics also require financial statement presentations standards – (i) fair value disclosure and (ii) enhanced footnote disclosures.

Note 2(b) to the Wells Fargo Stable Return Fund G financial statements provides a detailed discussion of its valuation policies. The financial statements of Wells Fargo Stable Return Fund G are available upon request.

The Fund does not invest directly in fully benefit-responsive contracts, and therefore is not required to include in its financial statements the disclosure requirements for stable value investment funds. However, certain information is provided to assist participating plans with their audits. The Fund is 100% invested in the Wells Fargo Stable Return Fund G. For information not included in these financial statements, refer to the financial statements of Wells Fargo Stable Return Fund G.

The fair value to contract value ratios for the Fund as of December 31, 2019 and 2018 were:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Net assets reflecting investments at fair value	\$ 183,347,599	249,587,076
Net assets reflecting investments at contract value	180,454,109	252,368,976
Fair value to contract value ratio	101.6%	98.9%

### **Yield Analysis**

The yield earned by the Fund at December 31, 2019 and 2018 was 2.09% and 3.07%, respectively. This represents the annualized earnings of all investments in the Fund, including the earnings recorded at the underlying collective trust funds, divided by the fair value of all investments in the Fund at December 31, 2019 and 2018, respectively.

The yield earned by the Fund with an adjustment to reflect the actual interest rate credited to participants in the Fund at December 31, 2019 and 2018 was 2.59% and 2.43%, respectively. This represents the annualized earnings credited to participants in the Fund, divided by the fair value of all investments in the Fund at December 31, 2019 and 2018, respectively.

### **(b) Investment Transactions and Interest Income**

Investment transactions are accounted for on the trade date. Realized gains and losses are determined on the basis of average cost.

Wells Fargo Stable Return Fund G does not distribute investment income to unit holders. Therefore, the appreciation or depreciation of units held and gain or loss on sale of units represent the sources of income to holders of the Wells Fargo Stable Return Fund G, such as the Fund.

## WELLS FARGO STABLE VALUE FUND J

### Notes to Financial Statements

December 31, 2019

(c) ***Income Taxes***

The Fund maintains tax-exempt status by operating as a collective trust fund regulated by the Office of the Comptroller of the Currency, and as such no provision for income taxes is required. It is intended that the Fund be exempt from taxation under Section 501(a) of the Code and qualify as a “group trust” under Revenue Ruling 81-100 and other applicable Internal Revenue Service rules and regulations.

The Fund follows accounting policies under ASC 740, *Income Taxes*, regarding how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. Management has analyzed the Fund’s tax positions taken in all potential open tax years and has concluded that as of December 31, 2019, there are no positions which would call into question the Fund’s tax exempt status. As such, the Fund does not have an accrual for uncertain tax positions. The Fund’s federal and state informational tax returns for tax years for which the applicable statutes of limitations have not expired (open tax years: December 31, 2016; December 31, 2017; December 31, 2018; and December 31, 2019) are subject to examination by the Internal Revenue Service and state jurisdictions. As of and during the year ended December 31, 2019, the Fund did not have a liability for any unrecognized tax benefits. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. During the year, the Fund did not incur any interest or penalties. The Fund is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

(d) ***Unit Issues, Redemptions, and Distributions***

In accordance with the terms of the Trust, the net asset value of the Fund is calculated daily, and net investment income and realized and unrealized gains on investments are not distributed but rather reinvested and reflected in the net asset value of the fund. Units of the Fund are issued and redeemed at the current net asset value. Redemptions by participating plans occur at net asset value following the 12-month notice period.

(e) ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increase and decrease in net assets from operations during the reporting period. Actual results could differ from those estimates.

(f) ***Fair Value Classifications***

Fair value measurement guidance establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires disclosure about fair value measurement.

As described in 2(a), the Fund has invested all of its assets in Wells Fargo Stable Return Fund G, a collective trust fund. The investments held by Wells Fargo Stable Return Fund G have separate fair value hierarchy level categorizations which can be found in its financial statements.

## WELLS FARGO STABLE VALUE FUND J

### Notes to Financial Statements

December 31, 2019

The investment in Wells Fargo Stable Return Fund G is valued as a practical expedient utilizing the net asset valuation, exclusive of the adjustment to contract value. The use of net asset value as fair value is deemed appropriate as the collective trust fund does not have a finite life, unfunded commitments relating to these types of investments, or significant restrictions on redemptions. The practical expedient is used for valuation, unless it is probable that the Fund will sell a portion of the investment at an amount different from the net asset valuation.

As of December 31, 2019, the fair value of this investment amounts to \$183,736,646 exclusive of the adjustment to contract value.

#### (3) Expenses

The Fund pays investment management and administrative services fees equal to an annual rate of 0.85% and trustee fees equal to an annual rate of 0.03% of the Fund's average daily net assets. The Fund's financial statements and financial highlights exclude the impact of any ancillary expense arrangements that are paid outside the Fund. For further discussion on fees, the Fund's disclosure book is available upon request.

#### (4) Securities Transactions

Investment transactions for the year ended December 31, 2019 follows:

##### Purchases

	<u>Cost of investments</u>
Investment:	
Wells Fargo Stable Return Fund G	\$ <u>28,932,126</u>

##### Sales

	<u>Proceeds from sales</u>	<u>Net realized gain</u>
Investment:		
Wells Fargo Stable Return Fund G	\$ <u>106,277,248</u>	<u>17,251,386</u>

A detailed transaction schedule is available upon request.

## WELLS FARGO STABLE VALUE FUND J

### Notes to Financial Statements

December 31, 2019

#### (5) Financial Highlights

Selected data for a participant unit outstanding for the year ended December 31, 2019 are as follows:

Total expenses*	\$	(0.43)
Net realized and unrealized gains*		<u>1.23</u>
Net increase in unit value from operations		0.80
Unit value at beginning of year		<u>47.76</u>
Unit value at end of year	\$	<u><u>48.56</u></u>
Total return		1.68%
Net assets at end of year (in millions)	\$	180
Ratio of expenses to average daily net assets**		0.886%
Ratio of net investment loss to average daily net assets**		(0.886%)

\* The per-share unit amounts for total expenses and net realized and unrealized gains are calculated based on a daily average of units outstanding for the year.

\*\* Ratio does not include the impact of expenses charged by the Wells Fargo Stable Return Fund G equal to 0.150% of the Wells Fargo Stable Return Fund G's average daily net assets.

#### (6) Subsequent Events Evaluation

On March 11, 2020, the World Health Organization announced that it had made the assessment that coronavirus disease 2019 ("COVID-19") is a pandemic. The impacts of COVID-19 is adversely affecting the entire global economy, individual companies and investment products, and the market in general. There is significant uncertainty around the extent and duration of business disruptions related to COVID-19 and the impact may be short term or may last for an extended period of time. The risk of further spreading of COVID-19 has led to significant uncertainty and volatility in the financial markets and the value of the Fund and the securities in which the Fund invests may be adversely affected by impacts caused by COVID-19.

The Fund has evaluated the need for disclosures and/or adjustments resulting from subsequent events through April 29, 2020, the date the financial statements were available to be issued. This evaluation did not result in any subsequent events that necessitated adjustments.

**WELLS FARGO STABLE VALUE FUND J**

Notes to Financial Statements

December 31, 2019

**Regulatory Statement (unaudited)**

**Participation requirements.** Participation in this Fund is available to employee benefit accounts which meet the following conditions:

- The participating account is part of a plan and related trust qualified under Section 401(a) of the Internal Revenue Code (IRC), and which is exempt from tax under IRC Section 501 (a) or is part of a governmental plan as defined by IRC Section 818(a)(6).
- The participating plan or trust instrument of qualified plans adopts documents establishing Wells Fargo Bank’s collective investment funds.
- Wells Fargo Bank, N.A. serves in a fiduciary capacity with respect to a participating account.

**Filing of Annual Report with Department of Labor.** A plan administrator receiving this Annual Report may be eligible for a simplified reporting procedure described in Department of Labor Regulations §2520.103-3 for a plan year ending on or after the end of a Fund’s fiscal year. The fiscal year end for the Fund is December 31. To such eligible plan administrators, Wells Fargo Bank, N.A. as Trustee for the Fund certifies that the statements of assets and liabilities included in the Annual Report were filed with the Department of Labor on or before the date upon which the annual report of such plans is required to be filed by the plan administrators in accordance with Department of Labor Regulation §2520.103-9. The “Employer Identification Number” of the Fund is as follows:

	<u>EIN</u>	<u>Plan Number</u>
Wells Fargo Stable Value Fund J	94-3371778	001

**Regulatory requirement.** Collective funds are authorized under the Comptroller of the Currency’s Regulation 9.18(a)(2) and are subject to other pertinent provisions of Regulation 9 as promulgated by the Comptroller of the Currency. In compliance with this Regulation, the Trustee will provide detail of investment transactions upon request and without charge.