Diversified Stock Income Plan

The Diversified Stock Income Plan (DSIP) List focuses on companies that the Advice & Research group believes will likely provide consistent annual dividend growth over a long-term investment horizon. Our objective is to provide a broad list of high quality, industry leading companies from which an investor can assemble a well-diversified portfolio. Through consistent dividend growth, our goal is to help investors stay ahead of the wealth-eroding effects of inflation.

Client risk tolerance and suitability should be considered when participating in this strategy.

Joseph E. Buffa, *Equity Sector Analyst*
Jack Russo, CFA, *Equity Sector Analyst*

25 Years of Rising Dividends

Time does go by quickly as it's hard to believe that November 29, 2018 represents the twenty-five year anniversary of the DSIP List's 1993 launch.

The world and the DSIP List have seen a lot of changes over the last twenty-five years including the advent of the internet, four different presidents, the tragedy of 9/11/2001 and Chicago baseball teams winning championships to name just a few. DSIP itself transformed as well. Originally launched in 1992, the Utility Stock Income Plan, or USIP, was the predecessor to DSIP and as the name implies, included only utility stocks. USIP's narrow focus was widened in the name of diversification to include securities from any sector that met the strategy's goal of providing a rising income stream. That core philosophy remains undeterred to this day –rising dividend payers tend to perform well through various business cycles. The chart below shows the hypothetical performance of the DSIP List compared to companies that do not pay dividends, those that leave their dividends constant (steady dividend payers), and dividend cutters and omitters since 1994 (see Figure 1). Now let's look how the DSIP List over its 25 year history has helped cope with rising inflation and overall market volatility, two never-ending challenges facing all investors.

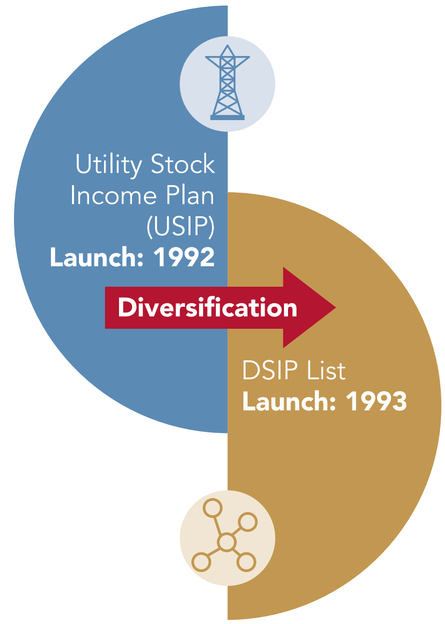
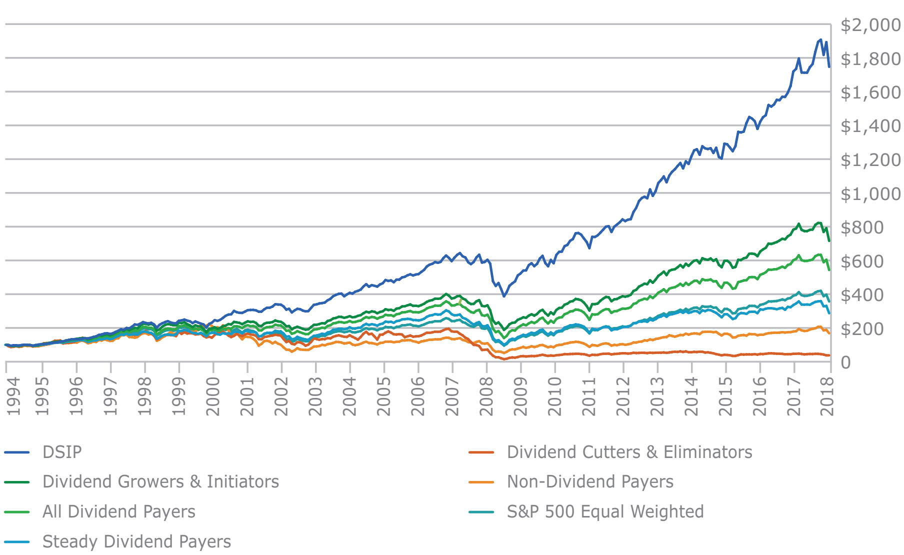


Figure 1 — DSIP List compared to S&P 500 Companies by Dividend Policy[1,2]



DSIP strategy outperforms both **Non-Dividend and Maintenance Dividend** payers over long-term investment horizons

Source: Ned Davis Research, Wells Fargo Advisors. The hypothetical growth of $100 chart illustrates the hypothetical performance of a $100 investment made in the list since inception in November 1993. It assumes the reinvestments of dividends and capital gains. The separate lines indicates the growth of the S&P 500 Companies by Dividend Policy for the same period. Past performance is no guarantee of future results. See following page for important information.

Return indices are created for five categories of dividend policies: Dividend-Paying stocks, Non-Dividend-Paying stocks, Dividend Growers and Initiators, Dividend Cutters and Eliminators and Dividend Payers with No Change in Dividends. The methodology in creating this chart is as follows:

1) Dividend Paying vs. Non-Paying:

   Each stock's dividend policy is determined by its indicated annual dividend. We classify a stock as a dividend-paying stock if the company indicates that it is going to be paying a dividend within the year. A stock is classified as a non-payer if the stock's indicated annual dividend is zero. Prior to July 2000, the indicated annual dividends were updated on a quarterly basis. Since July 2000, the indicated annual dividends are updated on a daily basis, so the most up-to-date information is used.

   The index returns are calculated using monthly equal-weighted geometric averages of the total returns of all dividend-paying (or non-paying) stocks. A stock's return is only included during the period it is a component of the S&P 500 index. The dividend figure used to categorize the stock is the company's indicated annual dividend, which may be different from the actual dividends paid in a particular month.

2) Dividend Growing, No-Change-in-Dividend, and Dividend Cutting.

   Each dividend-paying stock is further classified into one of the three categories based on changes to their dividend policy over the previous 12 months. Dividend Growers and Initiators include stocks that increased their dividend anytime in the last 12 months. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy. No-Change stocks are those that maintained their existing indicated annual dividend for the last 12 months (i.e., companies that have a static, non-zero dividend). Dividend Cutters and Eliminators are companies that have lowered or eliminated their dividend anytime in the last 12 months. Once a decrease occurs, it remains classified as a cutter for 12 months or until another change in dividend policy.

   The lines on the chart plot the index values for each of the five dividend policy categories, with each line starting at an initial value of 100. The indices are equal-weighted geometric indices based on monthly total returns, with the constituents of each index reconstituted monthly. A sixth line also plots the S&P 500 Geometric Equal-Weighted Total Return for comparison. This chart thus offers historical perspective on how stock returns and company dividend policy have been related over time. The chart is for perspective purposes only.

DSIP List performance is calculated by geometric linking daily security returns. Dividends are reinvested on the ex-date. The List is equal weighted, which assumes each security is given the same (or equal) market value. The List is rebalanced when changes are made or at the end of the year if no changes were made during the preceding calendar year. We measure all performance from the time each stock is added to the List to the time that it is removed, or the last date of the measurement period. There are times when a deleted stock has been reinstated, in which case its performance is treated as two separate positions.

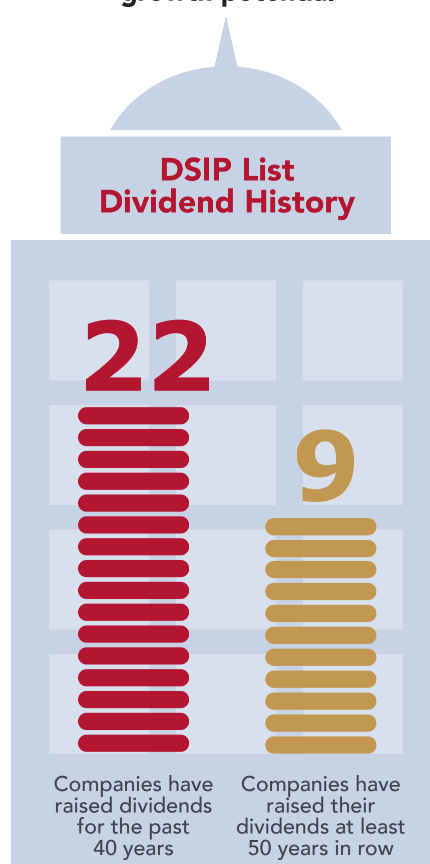
Wells Fargo Advisors has developed this list to help our clients with their financial goals, however Wells Fargo Advisors also recognizes that every client has a unique investment objective, risk tolerance, and time horizon for their various investments; therefore securities on the DSIP List may not be appropriate for all investors. Actual results for clients may differ to those presented due to various factors, including but not limited to, commission or transaction costs, as well as the timing of specific security transactions.

Investing in dividend-growing stocks can potentially offset, or even outpace, inflation's negative impact on overall personal wealth. As highlighted in the graphic at the right, of the nearly 80 companies on the List, nine have raised their dividends at least 50 years in a row and 22 have raised dividends for at least the past 40 years. Procter & Gamble (P&G), Emerson Electric and 3M Company lead the List with over 60 consecutive years of dividend hikes. These examples illustrate the potential of investing in companies that have historically grown their dividends and how this can help offset other cost pressures we see in our daily lives.

While we tout the impressive dividend histories of many DSIP List names, it's important to remember that the history itself is not a driver of inclusion on the List. An impressive track record is just that, an impressive track record. For the DSIP List, we're less concerned with P&G's past 60+ years of dividend increases – we're looking ahead for the future dividend growth potential.

More broadly speaking about the impact of inflation, we present below annual total return and average annual dividend increase statistics since the DSIP strategy's first full year (see Figure 2). We include the same metrics for the S&P 500 for comparison purposes. Since one of the main objectives of the DSIP List is to help investors stay ahead of the rising cost of living, we also show the annual change in the Consumer Price Index (CPI), a common measure of overall inflation. While past performance should not be assumed to be a harbinger of future results, we believe this table illustrates the historically defensive nature of the DSIP List and its hypothetical performance across cycles at providing income growth ahead of the rising cost of living.

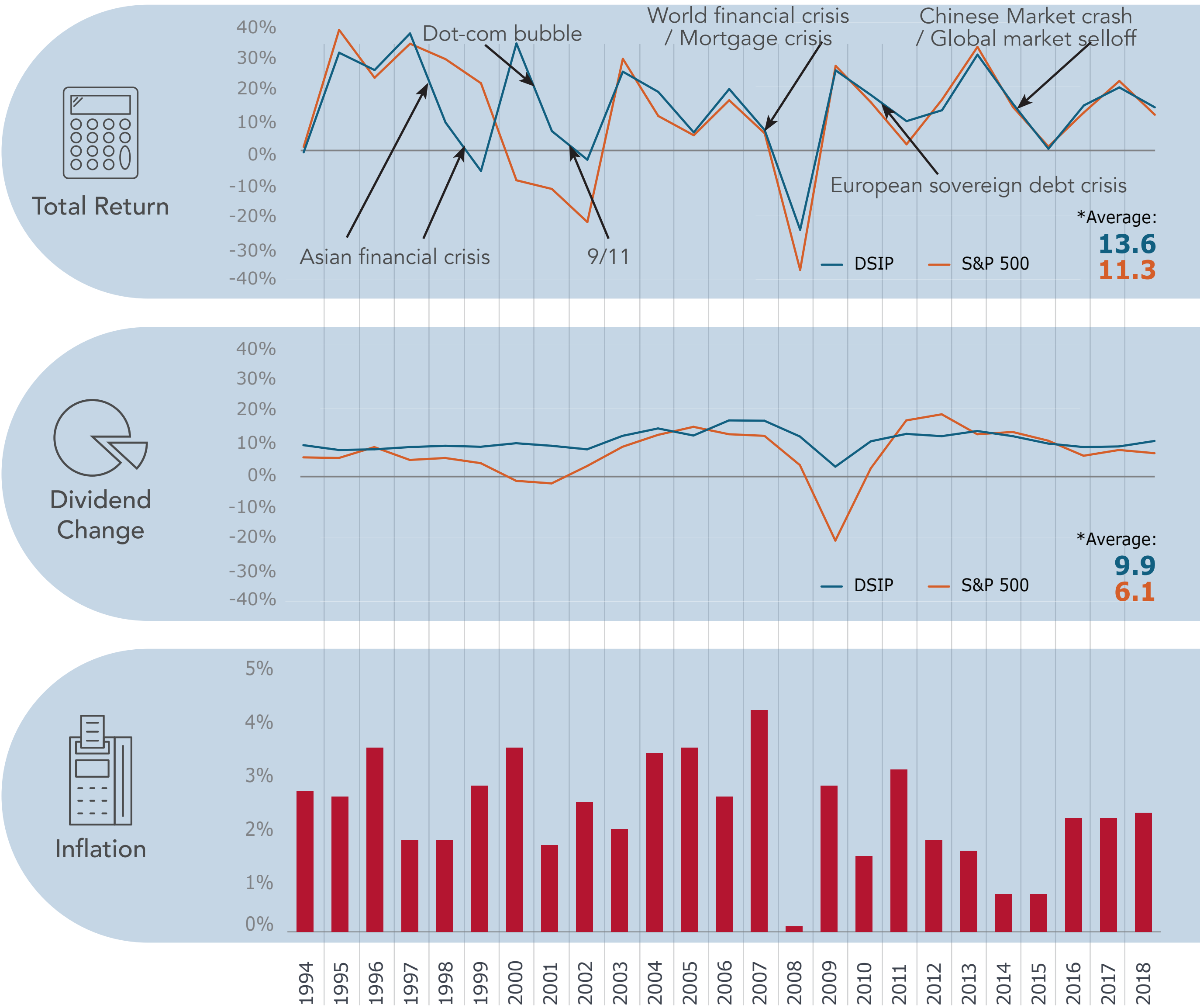
DSIP takes into account future growth potential



DSIP Can Also Help Reduce Portfolio Volatility

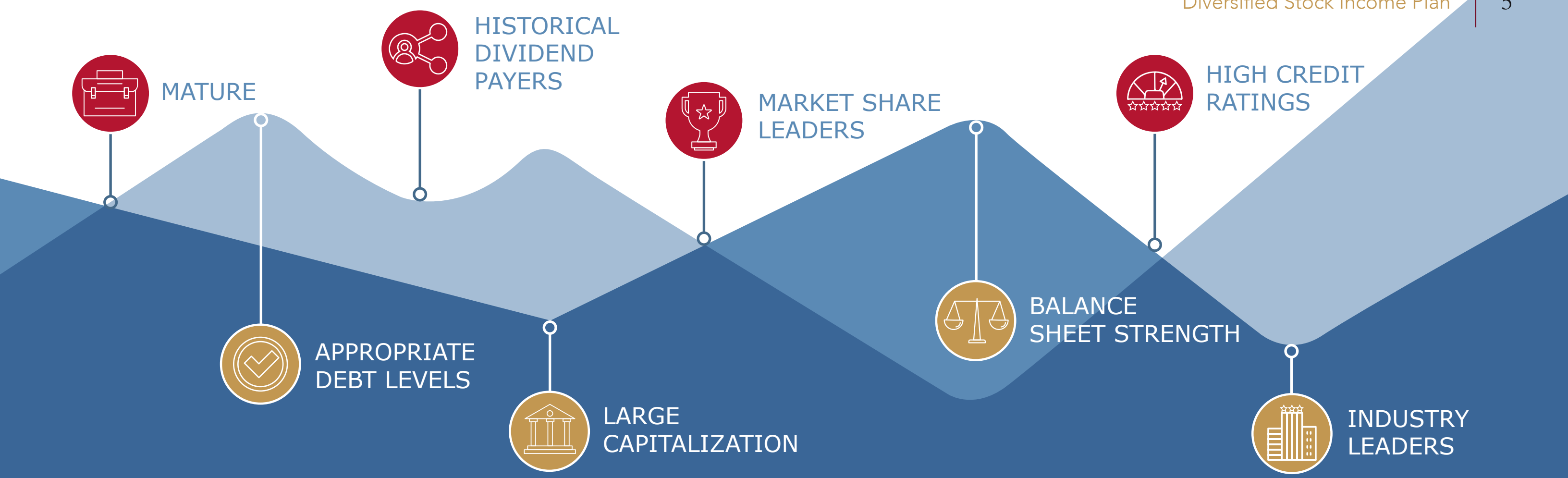
We have seen numerous periods of high overall market turbulence over the past twenty-five years. This turbulence was caused in some cases by unique events such as the 1997 Asian financial crisis, the dot-com bubble in early 2000, the 9/11/2001 attacks and the financial crisis of 2007-2008 to name just a few. We believe owning dividend-growing stocks can help reduce portfolio volatility in a declining stock market. The DSIP List outperformed in past struggling overall markets; we specifically cite the 2000-2002 and 2008 time periods as examples (see Figure 2).

Figure 2 — Total Return, Dividend Change, and Inflation



Sources: FactSet, S&P, Wells Fargo Advisors. Past performance does not guarantee future results

*Simple average, not to be confused with the compound annual growth rate (CAGR) which takes into account the compounding effects of previous returns. A simple average can over-represent growth. For reference, inception through 2018 CAGRs are +12.7% for DSIP and +9.6% for the S&P 500.



Why has the DSIP List Outperformed in Times of Market Distress?

The DSIP List strategy is to include companies with above average prospects for earnings and free cash flow growth that we believe will support steady dividend hikes over time. The companies on the DSIP List are typically more mature, large capitalization names that have historically exhibited balance sheet strength, appropriate debt levels and high credit ratings. These traits are generally valued by the investment community, particularly in declining markets. The DSIP List also contains companies that have been industry leaders, highly profitable and market share leaders in their respective industries. We believe a list of such companies should lead to below average volatility. It is interesting to note the DSIP List did not contain any technology stocks until after the burst of the tech bubble showing again its focus on more proven stocks. Hence, the DSIP List may trail popular market averages in strong upside market moves yet potentially outperform when overall markets are in a downturn.

Opportunity Lies in Dividend Growth

Plenty has changed in the past 25 years and we could see even more change over the next 25 years due to increased technology usage and millennials' unique preferences to name just a couple of reasons.

- While some of the specific stocks on our DSIP List will change too due to various reasons, we don't expect the basic principles of our DSIP List to change in the near future.
- The DSIP List continues to focus on companies that we believe have potential to provide consistent annual dividend growth over a long-term investment horizon. In fact, the average tenure of current DSIP List constituents is greater than ten years.
- Our objective is to provide a broad list of high quality, industry leading companies from which an investor can assemble a well-diversified portfolio. Through consistent dividend growth, our goal is stay ahead of the wealth eroding effects of inflation and to lower the overall portfolio volatility.

For a full list of the DSIP holdings, please contact your investment professional.

Risk Disclosures

There is no guarantee that a DSIP portfolio will meet its investment objectives or that dividend-paying companies will produce positive results. All investing involves risk including the possible loss of principal.

Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities.

A DSIP portfolio is concentrated in dividend-paying sectors of the economy which may subject it to more risks than if it were more broadly diversified over numerous sectors of the economy. This will increase the portfolio's vulnerability to any single economic, political or regulatory development affecting these sectors or the industries within the sectors and may result in greater price volatility. The income generated by the portfolio's holdings is dependent upon the dividend policies of the companies in which it invests. If a company in which the portfolio invests stock price falls, it can be an indication of a loss of confidence in the company's ability to generate profits, the company is incurring losses, or that it current dividend is unsustainable. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and may be reduced, changed or eliminated at any time.

Disclaimers

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