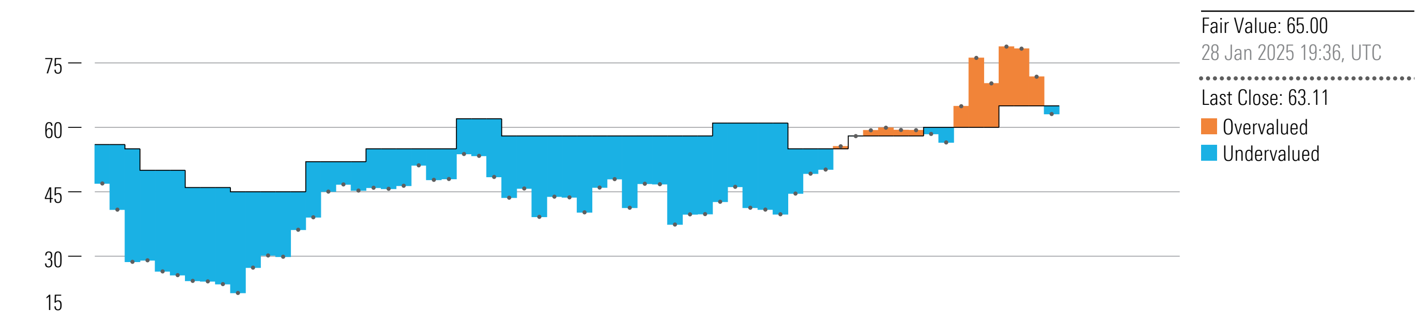
Morningstar Equity Analyst Report | Report as of 11 Apr 2025 19:26, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

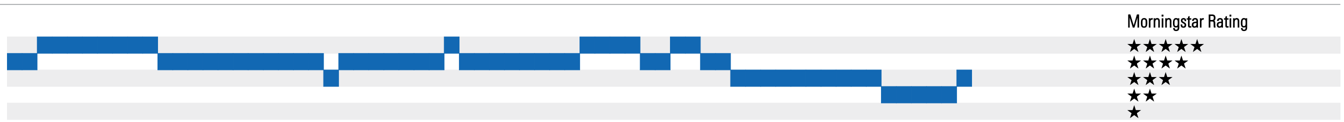
Wells Fargo & Co WFC ★★★ 10 Apr 2025 21:35, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
63.11 USD 10 Apr 2025	65.00 USD 28 Jan 2025 19:36, UTC	0.97	203.83 USD Bil 11 Apr 2025	Wide	Large Value	Medium	Standard	2 Apr 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	0.67	0.87	0.71	0.89	1.17	0.97	Price/Fair Value
	-41.64	60.97	-11.65	22.35	45.75	-9.58	Total Return %



Total Return % as of 10 Apr 2025. Last Close as of 10 Apr 2025. Fair Value as of 28 Jan 2025 19:36, UTC.

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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Wells Fargo Earnings: Encouraging Progress on Regulatory Front, but Economic Uncertainty Abounds

Analyst Note Suryansh Sharma, Senior Equity Analyst, 11 Apr 2025

Wells Fargo reported a middling first-quarter performance, with earnings of $1.39 per share, equating to an annualized return of tangible equity of 13.6%. The bank displayed progress on the regulatory front, but the macroeconomic impact of the tariff policy will remain front and center for the bank.

Why it matters: The impact of tariff-related disruptions didn't show up in the first quarter, but we think that the impacts will be much more visible in the second. We were somewhat surprised to see that the bank had not increased its allowance for loan losses during the quarter.

- Lackluster results on the NII side, down 6% on a year-over-year basis, had an impact on the bank's first-quarter profitability. The impact of lower rates on floating rate assets, unfavorable change in deposit mix, and lower loan balances drove the uninspiring performance.
- The bank has been doing an impressive job at expense control, which will be key for the bank to achieve its profitability targets. Core expenses were flattish on a year-over-year basis as the bank was able to carve out efficiencies and was able to invest in technology and other strategic areas.

The bottom line: We intend to maintain our $65 per share fair value estimate for wide-moat-rated Wells Fargo after incorporating first-quarter results and believe that shares are about fairly valued even after the sharp correction.

- We were skeptical about the rally in US bank stocks after the US presidential election, given the lack

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Sector	Industry
Financial Services	Banks - Diversified

Business Description

Wells Fargo is one of the largest banks in the United States, with approximately $1.9 trillion in balance sheet assets. The company has four primary segments: consumer banking, commercial banking, corporate and investment banking, and wealth and investment management. It is almost entirely focused on the US

of clarity around the administration's policies and the healthy valuations in the sector. Bank stocks have corrected by more than 20% from their highs, and valuations look more appealing now.

Coming up: It is difficult to predict the precise timeline of the asset-cap removal, but the bank seems to be making great progress.

- Five consent orders were closed out in the first quarter, bringing the total to 11 since 2019. Wells Fargo is now closer to its asset cap being lifted than it ever was.

Business Strategy & Outlook Suryansh Sharma, Senior Equity Analyst, 3 Apr 2025

Wells Fargo remains in the middle of a multiyear rebuild. The bank is still under an asset cap imposed by the Federal Reserve, but we have seen encouraging progress on the regulatory front. Wells Fargo has years of expense-saving projects ahead of it as the bank attempts to get its efficiency ratio back under 60%. We also see a multiyear journey of repositioning and investing in the firm's existing franchises, including expanding its middle-market investment banking wallet share, investing in the cards franchise, and revitalizing a wealth segment that has lost advisors for years. These tasks take on increased importance for a bank that has been on defense for years after its fake accounts scandal broke in late 2016.

We're already getting glimpses of the transition to offense from defense with the launch of multiple new card products, advisor numbers stabilizing, and incremental internal investments in the banking franchise in recent years. Even so, while the bank is making progress, we expect a couple of more years of continued efforts ahead.

Despite its issues, the bank remains one of the top deposit gatherers in the US, with the third most deposits in the country behind JPMorgan Chase and Bank of America. The bank has one of the largest branch footprints in the US, excels in the middle-market commercial space, and has a large advisory network. We believe this scale and the bank's existing mix of franchises should provide the right foundation to eventually build out a decently performing bank. Wells Fargo may not reach the types of returns and efficiency that peers like JPMorgan have achieved, but we expect it to remain larger than any other regional bank and stay competitive as such. We're also gaining confidence that CEO Charlie Scharf is guiding the bank in a new and positive direction.

For now, the bank needs to consistently hit the expense targets it is laying out (it achieved this in 2021 and 2022 but not in 2023 and 2024) and keep making progress with regulators. We're hoping for the asset cap removal in 2026, but this remains highly uncertain.

Bulls Say Suryansh Sharma, Senior Equity Analyst, 3 Apr 2025

- Wells should have several years of slower expense growth on the back of efficiency improvement initiatives, thereby boosting its profitability.

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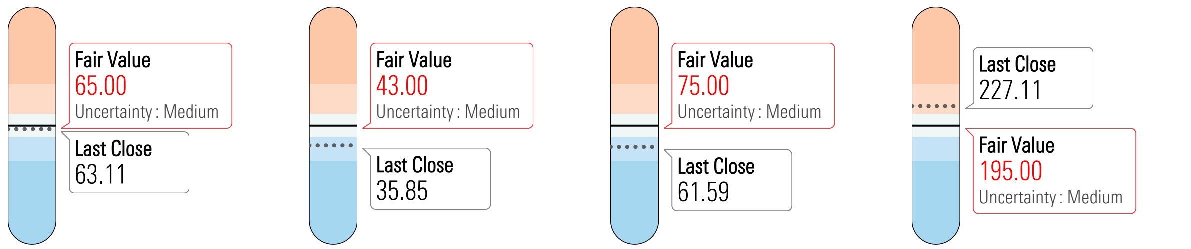
Competitors



	Wells Fargo & Co WFC	Bank of America Corp BAC	Citigroup Inc C	JPMorgan Chase & Co JPM
Economic Moat	Wide	Wide	None	Wide
Currency	USD	USD	USD	USD
Fair Value	65.00 28 Jan 2025 19:36, UTC	43.00 4 Feb 2025 23:19, UTC	75.00 5 Feb 2025 00:36, UTC	195.00 24 Jan 2025 21:20, UTC
1-Star Price	87.75	58.05	101.25	263.25
5-Star Price	45.50	30.10	52.50	136.50
Assessment	Fairly Valued 10 Apr 2025	Undervalued 10 Apr 2025	Undervalued 10 Apr 2025	Overvalued 10 Apr 2025
Morningstar Rating	★★★10 Apr 2025 21:35, UTC	★★★★10 Apr 2025 21:32, UTC	★★★★10 Apr 2025 21:32, UTC	★★10 Apr 2025 21:31, UTC
Analyst	Suryansh Sharma, Senior Equity Analyst	Suryansh Sharma, Senior Equity Analyst	Suryansh Sharma, Senior Equity Analyst	Suryansh Sharma, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.97	0.83	0.82	1.16
Price/Sales	2.66	2.79	1.44	3.86
Price/Book	1.29	1.00	0.61	1.96
Price/Earning	11.75	11.17	9.84	12.50
Dividend Yield	2.46%	2.85%	3.59%	2.22%
Market Cap	206.06 Bil	272.56 Bil	115.92 Bil	632.05 Bil
52-Week Range	50.15—81.50	33.07—48.08	53.51—84.74	179.20—280.25
Investment Style	Large Value	Large Value	Large Value	Large Value

- Wells Fargo's retail branch structure, advisory network, product offerings, and share in small and medium-size enterprises are difficult to duplicate, ensuring that the company's competitive advantage is maintained.
- Not being allowed to grow the balance sheet may not be such a disadvantage in an environment where more and more banks are willingly stopping growth.

Bears Say Suryansh Sharma, Senior Equity Analyst, 3 Apr 2025

- Wells Fargo still has consent orders outstanding, including the asset cap, and has been on defense for years, raising the potential for structural damage to its competitive positioning.
- With the asset cap remaining, Wells will be unable to materially grow its balance sheet, a headwind to earnings growth.
- The market has started pricing in optimistic assumptions for the bank in recent quarters and any negative surprise related to regulatory scrutiny, macroeconomic weakness, or NIM contraction can have

a substantial impact on the share price.

Economic Moat Suryansh Sharma, Senior Equity Analyst, 3 Apr 2025

We believe that Wells Fargo possesses a wide economic moat based on cost advantages and switching costs, which is consistent with our bank moat framework. Wells Fargo is a US money-center bank and has a strong market share in consumer, small business, and middle-market segments. While the fake accounts scandal and ensuing regulatory costs have harmed Wells Fargo's returns on equity, the fact that the bank has still been able to outearn its assigned 9% cost of equity in most years since 2016 points to the reality of how hard it is to truly destroy the bank's franchises to the point where it becomes a cost-of -apital entity or worse.

The bank’s return dipped below its COE only in 2020 and 2022. The profitability in 2020 was negatively affected by pandemic-related provisioning, which was reversed in the following year, while returns in 2022 were negatively affected by heavy regulatory operating losses (one-time legal and customer remediation expenses related to the bank’s legacy issues). We estimate that the bank's returns have been negatively affected by about 1.5 percentage points on average because of regulatory operating losses in the past several years, and we expect these charges to decline significantly in upcoming years as regulatory concerns ease. We project the asset cap ($1.95 trillion balance sheet limit imposed by the Federal Reserve in 2018 as a penalty for the bank’s past regulatory and risk management failures) to be lifted by 2026 in our base case scenario for the bank. While we don't expect Wells’ ROTE to return to its prior glory days or even to be as strong as some of its wide-moat peers, we nonetheless have enough confidence in the bank's ability to outearn its cost of capital over the next two decades that we believe a wide moat is still appropriate. We estimate the mid-cycle return on tangible equity of around 14% for the bank compared with the cost of equity of around 9.0%.

Industry Dynamics:

Wells Fargo has one of the largest retail branch networks in the US and is one of the leading deposit gatherers in the country. The bank is also one of the largest US issuers of credit and debit cards (with particular strength in debit), has one of the leading commercial banking franchises (with particular strength in the middle market), boasts a leading consumer franchise with products serving roughly 70 million consumers and small businesses, and also has significant wealth management operations within its advisory unit. The bank’s business is predominantly concentrated in the US, in contrast with its two larger rivals, JPMorgan and Bank of America. Partly due to this fact, Wells Fargo has the lowest global systemically important bank surcharge of the Big Four banks (JPMorgan, Citigroup, Wells Fargo, and Bank of America), giving it a further structural return advantage from having to hold relatively less capital. The bank’s business mix is also concentrated toward retail, small business, CRE lending, and middle-market segments compared with the other money-center banks, which has been advantageous for its return profile.

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Wells scale advantage in its core banking business can be demonstrated by the sheer size of its balance sheet, which stood at about $1.9 trillion as of the end of 2024. For context, this figure compares to JPMorgan's $4.0 trillion and Bank of America's $3.3 trillion. Wells Fargo is still one of the biggest banks in the US, but arguably, it has lost some of its scale advantage due to the 2018 asset cap. The impact of the asset cap is inherent in the fact that JPMorgan's balance sheet was about 30% bigger than Wells Fargo's in 2017, but JPMorgan was almost twice as big as Wells Fargo by the end of 2024. Most of the market share that Wells Fargo lost after the asset cap was enacted is likely a permanent market share loss for the bank.

The consumer banking segment is a core strength of the bank, and it provides the bank with cheap deposits, which form the backbone of the bank's liability franchise. As of 2024, the consumer segment contributed about $780 billion in deposits but had only $320 billion in loans, thereby supporting other segments of the bank. The consumer banking segment had about 4,200 retail branches and 36 million digitally active customers as of 2024.

The banks commercial banking segment includes its middle-market franchise and provides a complete suite of banking solutions to smaller companies. The corporate and investment banking segment contains capital markets and other banking products for larger-sized corporates, most of the bank's commercial real estate lending portfolio, and various trading, treasury management, and research capabilities of the bank. The bank ranked eighth globally in terms of investment banking revenue in 2024 (Dealogic), with a 2.4% share. Finally, the firm's wealth and investment management segment provides personalized investment advisory, brokerage, financial planning, lending, private banking, and fiduciary services to high-net-worth clients primarily through its network of financial advisors. The bank had about $1 trillion in assets under advisory as of 2024.

Investment Banking and Trading:

Investment banking moats for equity and debt underwriting, merger and restructuring advisory, and loan syndication are largely built on intangible assets. These include a firm's reputation, investor relationships, executive connections, industry expertise, research coverage, track record, and distribution strength. A strong intangible asset base increases the likelihood of securing the lead advisor role in deals, which offers higher revenue potential. It also enhances recruitment of top talent. Indicators of these moats include league table rankings, involvement in major deals, and banker revenue generation.

Conversely, institutional securities trading in developed markets shows little evidence of moats. Transparent pricing, high liquidity, and increased electronic trading have tightened profit margins for broker/dealers. Greater opportunities exist in less transparent areas like bespoke derivatives or block trades, although they carry higher risks. For instance, if a bank buys a large block of shares, it may have to keep it on its balance sheet for a period of time and may face potential losses if the share value declines before finding buyers. High revenue and margins in institutional trading don't guarantee excess returns on capital. While top banks may earn slightly higher returns (and margins) than smaller firms, the business remains volatile, with returns barely exceeding the cost of capital. Broker/dealers must hold financial instruments on their balance sheet, like fixed-income securities, which require costly capital. Stricter regulations have further increased capital requirements for the business, limiting profitability. As a result, even high margins in trading don't necessarily indicate a strong economic moat. While certain elements in Wells Fargo's investment banking businesses benefit from intangible assets, we do not award intangible asset moat source to the business on a consolidated basis, given the segment's limited contribution to total firm profit.

Wealth Management:

Wells Fargo provides products related to wealth management, trust and fiduciary products, and private banking in its wealth and investment management segment. Wells Fargo's wealth management business benefits from both client asset stickiness and advisor switching costs. On the one hand, clients are often hesitant to switch advisors because of existing relationships with their current advisor, uncertainty about the potential cost-benefit trade-off of a switch, and inertia with financial management decision-making. On the other hand, we believe advisors tend to stay with their current firm due to the threat of losing client assets if they switch. A 2021 study by Cerulli suggests that advisors can lose as much as 19% of client assets if they switch firms. We believe that the moats within the wealth management business are generally stronger than within a typical asset management business.

Retail and Commercial Banking:

We argue that bank moats are derived primarily from two sources: cost advantages and switching costs. We see cost advantages as stemming from three primary factors: a low cost deposit base, excellent operating efficiency, and conservative underwriting, with regulatory costs being a final factor that must also be considered.

We think that Wells Fargo's biggest competitive advantage is its high-quality deposit franchise, especially in the retail banking business. The bank funds a materially higher portion of its liabilities with deposits when compared with its other money-center rivals. Wells Fargo funded more than 80% of its liabilities with deposits (that are generally cheaper), compared with around 65% at larger rivals like JPMorgan and Bank of America at year-end 2024. Wells Fargo's overall deposit market share is attractive, with some of the highest market share and market coverage among all US banks. As a result, the bank has the third-highest deposit share in the US, with a wide gap between Wells Fargo and the fourth-largest player (which is roughly 50% of Wells' size). The bank has been consistently losing deposit share during the past several years due to the asset cap, but the asset cap has also forced the bank to prioritize higher-quality cheaper deposits. We think that the bank should be able to grow its deposit base in line with the industry once the asset cap is lifted. Wells Fargo's cost of interest-bearing deposits has consistently been lower than the industry average, indicative of an advantaged deposit franchise. Importantly, we view the bank's deposit base as likely to remain advantageous in the future as well.

Wells Fargo's operating efficiency has generally been close to or better than peers in most years until 2015, but this changed in recent years due to the extra expenses associated with the bank's regulatory issues and its asset cap. Legal accruals, remediation charges, and the need to build out a more robust internal controls system have weighed on the expense base. In addition to these extra costs, the impediment of not being able to grow its balance sheet has been putting material pressure on the bank. In a normal setting, the bank's balance sheet and core expense base continue to grow in line with inflation, but with an asset cap in place, Wells' core expense base has grown every year, but its balance sheet has essentially remained flat for the last seven years. This explains the constant need to undergo continuous efficiency initiatives. Due to these reasons, lifting the asset cap would be a material upside for the bank in terms of its future efficiency outlook. Overall, we anticipate that the bank will eventually work through its regulatory issues and will return to an operating position that won't put it at a disadvantage, eroding its moat.

In addition to this, we would like to highlight that Wells Fargo has a much higher exposure to certain business lines, such as wealth management, investment banking, and home lending, that typically have much higher efficiency ratios than traditional retail banking. These segments weigh on the efficiency ratio of the consolidated bank due to the structural characteristics of these businesses, which have lower margins but are relatively capital light. For context, the bank's consumer, commercial, and corporate banking segments reported an average efficiency ratio of 64%, 49%, and 46%, respectively, during 2023 and 2024. However, its wealth management business reported a much higher average efficiency ratio of 83% during the same period. The bank's consolidated efficiency ratio is negatively impacted by its business mix, but the efficiency ratio of the bank's core banking functions is decent, especially given the asset cap context.

We believe that Wells Fargo also benefits from economies of scope, with its broad product assortment increasing customer lifetime value and allowing it to spend more to acquire customers. This factor applies primarily to the banks with the largest distributional scale and the largest breadth of products. We think scale will matter more and more over time, given the new phase of banking we are entering, where technological changes are occurring faster and are more impactful than ever before and can be deployed across singular, integrated platforms. Therefore, we see only more advantages for the largest banks when it comes to operating efficiency in the future. With Wells Fargo's tech budget, the bank will be able to maintain higher levels of investment while maintaining similar levels of efficiency. The bank is quite sensitive to rates, and therefore the rate cycle will play a role in its efficiency, but through the cycle, we see good enough efficiency for the bank, although it will take years to see what a reborn Wells Fargo is capable of on this front. We project the efficiency ratio (defined as operating expenses/ revenue) of the bank to improve to the low sixties in the terminal year of our forecast, compared with the elevated levels seen in recent years. Wells Fargo will probably not be advantaged in terms of efficiency for many years, but the bank should be in line with the industry in terms of efficiency ratio after adjusting for its business mix.

Turning to underwriting, we believe that Wells Fargo maintains a disciplined underwriting culture that contributes to its durable cost advantage. Wells Fargo fared better than many of its peers during the great financial crisis. The bank had actively steered away from the most risky mortgage products, and its business model was much less heavily reliant on capital markets and trading activities. The bank's largest exposure came from the 2008 acquisition of Wachovia. Even so, despite the acquisition of a troubled Wachovia and the bank's higher concentration in consumer lending and real estate in general, Wells performed exceptionally, outperforming peers during the period. Overall, we are encouraged by the bank's history of above-average underwriting and risk-taking ability and believe the underwriting culture has probably remained positive since the crisis, despite the bank's other operational issues. Wells Fargo's credit costs (net charge-offs as a percentage of loans) have consistently been lower than the US banking industry during the last two decades, showcasing its risk-averse culture and its advantage in underwriting. The bank has been investing aggressively in data analytics and tech to improve its underwriting, and we think that it should continue to maintain an advantage in underwriting loans.

Banks primarily earn moats because of their cost advantages, but the competitive positioning of a particular bank can be reinforced by its ability to retain the advantages through switching costs. We see switching costs as more of a supporting moat source for banks rather than a primary moat source. In banking, where many of the products are commodified to a large degree, getting potential clients into your banking platform (where it helps to have more products in more places) and then keeping them there (where more products equates to higher switching costs) matters a lot, and we see Wells Fargo being able to pull this off. Banks with deep customer relationships spanning multiple products can generate higher-than-average switching costs.

Customers tend to keep their money in the same bank despite changes in interest rates, economic conditions, or the availability of similar higher-yield products offered by competing banks. This can largely be attributed to the financial, time, and psychological barriers that make it difficult or inconvenient for customers to move their deposits from one bank to another. Switching banks is often not just about transferring money from one account to another; it can also involve changing direct deposit, credit card linkages, automatic bill payments, and so on. The time, inconvenience, and friction associated with changing banks are similar for businesses as for retail customers. In addition to this, the financial rewards associated with changing banks are often very limited. For example, the rates paid on certificates of deposits are comparable among money-center banks, and to earn materially higher rates, the customer might have to move to a regional bank, community bank, or a fintech that does not have comparable product offerings and may involve higher risk. This stickiness in deposits is an inherent characteristic of the banking business and arises from factors like convenience, trust, switching costs, and the perceived safety of bank deposits. The inherent switching costs in bank deposits can be seen in the fact that deposit market share doesn't change much among different banks during a typical year. The difficulty in moving bank accounts is also exemplified by the fact that it is now common practice for US banks to offer hundreds of dollars or highly attractive rates to attract new customers.

We consider switching costs as a secondary moat source despite it being an inherent feature of bank deposits because all banks benefit from it. Having said this, we argue that certain types of deposits are stickier than others. We think that retail deposits are stickier than yield-sensitive institutional deposits, that a more granular deposit base is stickier than a lumpier deposit base, that checking accounts or working capital-related accounts are stickier than savings or investment-based accounts, and that noninterest-bearing deposits are stickier than interest-bearing deposits. Given the fact that the type of deposits with higher switching costs are generally cheaper, we argue that deposit costs for banks are the strongest indicator of relative switching cost advantage. This is the reason that both the cost advantage moat source and switching cost moat source for banks are joined at the hip, and we tend to rely more on cost advantage given the availability of quantitative metrics to support moat arguments.

Scale and Scope:

Overall, we believe the bank's key advantage comes from its scale in certain fixed-cost, fixed-platform businesses, as well as the breadth of products it can offer to clients. This contributes to economies of scale and scope and creates switching costs for customers as they use the bank for more and more products. The bank has consistently been one of the top issuers of debit cards and is also in the top 10 for credit card balances in the US. The card space is a highly competitive space and has consolidated over time, but it's still a good and profitable business if one can establish a footprint, and while Wells Fargo certainly isn't one of the most dominant players here, it has nonetheless managed to establish a competitive franchise. The same trend of increased competition, increased digitalization, and the need to bring a full suite of products to the marketplace is also occurring for other consumer-based, mass-market products. Payments and other technology investments bleed over into the corporate payments space, where Wells' treasury and payments management platform has helped the bank maintain an excellent share in the commercial market, particularly with middle-market business clients. As a result, when we think about the long term and which banks will be able to put together the most complete consumer and commercial banking platforms, we think Wells Fargo will be one.

While all of these segments are strong on their own, we believe there are advantages to combining them under one banking roof. While the cross-selling strategy was poorly implemented in the past, leading to regulatory issues that have persisted longer than most people thought, we don't believe the overall idea of being able to expand a customer base with more products per customer is fundamentally flawed. The key is healthy implementation and execution. With that in mind, on the consumer side Wells Fargo can cross-sell multiple products, providing advantaged pricing to key customer segments, and spread the overall costs of customer acquisition across more revenue streams. On the commercial side, similar dynamics apply; the bank can offer a complete package with a national scale that few can compete with while sending out armies of bankers to existing and new markets in an effort to win new business and maintain local relationships. In Wells Fargo's wealth management operations, while scale isn't necessarily a huge advantage, we do believe these segments can help contribute to economies of scope. The bank is able to be a one-stop shop, offering investing and advisory capabilities along with more traditional banking services to the same client base. Many of these seemingly separate capabilities have natural overlap, such as advising clients on selling their business and then helping them manage the large wealth inflow. A bigger scale, powerful distribution networks, a multitude of products, and diversification of business lines lead to economies of scope in addition to the economies of scale already achieved by the bank.

The rapid advancement of digitization, AI, and automation is reshaping banking, reducing reliance on physical branches, and enhancing efficiency. The largest banks will be able to spend the most on technology and will have access to unique data on the largest client bases, and Wells Fargo is no exception. We believe Wells' ability for higher investment in tech platforms that can scale, as well as its access to customer data on millions of households, should bolster the bank's advantages over the longer run. Large US banks are leveraging economies of scale and scope to invest heavily in technology, widening the gap between them and smaller banks. While fintechs excel in niche areas, they face high regulatory and competitive barriers, limiting their ability to disrupt the industry. Wells Fargo, with its vast technology budget and a massive workforce in tech roles, is well-positioned to capitalize on this shift. Its ability to scale technology and harness extensive customer data strengthens its competitive edge, reinforcing the idea that scale, scope, and tech investment are crucial in modern banking. Having the ability to offer a complete suite of products to both retail and institutional clients under a single roof, increasingly on a unified, well-integrated digital platform, is one of the strongest competitive characteristics of US money-center banks that would be most difficult to replicate for its smaller rivals.

Conclusion:

We believe the US banking system has improved over the last decade, as capital levels supporting it are at all-time highs. Further, regulation has become considerably stronger in the past several years. The US banking market is quite fragmented, and Wells Fargo must compete with a variety of regional and community banks as well as large money-center institutions, although this fragmentation has gradually decreased since the 1990s. While we do view the banking sector as intensely competitive, the largest banks by asset size have generally been able to earn higher returns on equity for the last several decades and still do so today. Our long-term outlook is generally positive from a macroeconomic and political standpoint for the US banking system, as the US is still the world's leading democracy, has increased its GDP at a steady pace for years, and maintains the world's reserve currency, all of which contribute to banking stability. US money-center banks are more geographically diversified than the majority of US regional banks, which often have concentrations in individual states or local economies. This diversification is positive from a risk perspective.

Wells Fargo is large enough to be considered a global systemically important bank, although it has the lowest GSIB surcharge of the Big Four money-center banks, which includes Wells Fargo, JPMorgan, Bank of America, and Citigroup. The bank is also large enough to be subject to the Federal Reserve's annual stress tests as well as a host of other regulatory requirements, and we don’t see any massive regulatory relief coming for the large money center banks. The stringent capital requirements that the largest banks are held to give us some reassurance that these banks will be able to weather the next economic downturn.

We use return on tangible equity, or ROTE, to determine whether a bank has shown or is forecast to have the characteristics of an economic moat. After making certain adjustments, we calculate that Wells Fargo has earned an average ROTE of about 12.5% in the past 10 years, which is significantly above our 9.0% cost of equity for the bank despite the asset cap. We project that the bank should be able to earn a ROTE of around 14% in our mid-cycle forecast year, given its scale and expected resolution of regulatory concerns. In the case of Wells Fargo, we clearly have both quantitative and qualitative evidence of an economic moat and are confident about the bank’s ability to maintain durable excess returns, underpinning our wide moat rating.

Fair Value and Profit Drivers Suryansh Sharma, Senior Equity Analyst, 3 Apr 2025

We are increasing our fair value estimate for Wells Fargo to $65 per share from $60 per share after incorporating the latest results. This fair value estimate is equivalent to 1.6 times the reported tangible book value per share as of the end of 2024.

In our base case, we now project Wells Fargo breaking the asset cap barrier by 2026. As a result, we have low average earning asset growth until 2026 but the growth picks up after that. We acknowledge there is a higher degree of uncertainty related to projecting net interest income, or NII, for Wells, given its unique balance sheet dynamics related to the asset cap. Having said this, we expect net interest margin, or NIM, to compress slightly to around 2.70% in 2025 from 2.73% in 2024, as interest rates head lower and the bank remains asset-sensitive. We also expect loan growth to remain muted as rates remain relatively high in the upcoming year. Overall, NIM compression and modest growth in loan and deposit balances lead to a NII growth of 1.2% in 2025.

The headwinds associated with the bank's asset sensitivity continue to play out in 2026 and 2027, as we project the federal-funds rate to reach 2.50% by the end of 2027. Lower interest rates result in NIM of 2.65% in 2026. The NIM compression in 2025 and 2026 is offset by some balance sheet growth. Ultimately, we expect NII to grow at a healthy clip after the impacts of the current interest rate cycle completely play out and asset cap is lifted.

Investment banking revenue has recovered strongly in recent quarters but mortgage-related fees have remain depressed due to higher rates. Trading-related fees have been exceptionally strong in the past couple of years, and we expect trading-related revenue to remain strong in the near term before it starts normalizing lower. Growth in deposit and lending-related fees should remain muted in the coming year given the expectations of slower deposit and loan growth. Meanwhile, we expect the asset management business of the bank to have materially slower growth in future years given the current asset valuations. Overall, we project a 2.5% noninterest revenue compounded annual growth rate in the next 10 years.

A key part of our thesis remains that Wells Fargo will be successful in cutting expenses. In both 2021 and 2022, the bank managed to meet our expense expectations. The original guidance for 2023 of $50.2 billion (excluding operating losses) was what we were expecting, but that guidance crept higher as the year progressed with the firm finally ending the year with a core expense base of $51.5 billion (excluding operating losses, FDIC special assessment, and nonrecurring severance expenses). The core expense base for the bank has faced some upward pressure in 2024 due to higher revenue-linked compensation, but expense growth should fall in line in 2025. In the medium term, savings from cost-cutting initiatives should be offset by higher technology spending and inflationary pressure. We think that the bank will eventually bring its efficiency ratio back down to roughly 62%, but this will take several more years of expense cuts.

Our projections produce a terminal return on tangible equity of roughly 14.0%, in excess of the bank's 9% cost of equity but below management's 15% long-term target.

Risk and Uncertainty Suryansh Sharma, Senior Equity Analyst, 28 Jan 2025

An investment in Wells Fargo entails a large amount of regulatory and macroeconomic risk. For Wells, the cost of compliance is high, the bank is large and complex, and is clearly a prime target of regulators seeking fines and litigants seeking compensation for alleged misdeeds. From a macroeconomic perspective, Wells Fargo's profitability will be materially affected by the interest-rate cycles and the effects of credit and debt cycles, all of which are outside management’s control. Most lines of business at Wells are economically sensitive. In addition, the bank is subject to the Federal Reserve's annual stress test. Depending on the results of that review, Wells may be subject to capital return restrictions. If it were required to hold more capital, returns on equity could be affected.

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
63.11 USD 10 Apr 2025	65.00 USD 28 Jan 2025 19:36, UTC	0.97	203.83 USD Bil 11 Apr 2025	Wide	Large Value	Medium	Standard	2 Apr 2025 05:00, UTC

Because Wells is in turnaround mode, there is also higher operational risk. Banking is a business of trust, and damage to the bank's brand could result in the permanent loss of customers or force the bank to compete harder on price. The issues with the bank's regulators are also not over, predicting the timing of the asset cap being lifted is difficult, and expenses will be hard to predict with legal charges. All this increases risks for Wells Fargo.

From an environmental, social, and governance perspective, commercial banks are expected to have strong product governance. Predatory or discriminatory lending practices are examples of poor product governance, which can affect certain banks at times. We view most product governance and social risks as manageable, although Wells is a perfect example of how much damage can be done when these issues spiral out of control. Banks also lend to certain sectors that can come under more scrutiny at times, like gun manufacturers or energy. Commercial banks don’t directly have a large environmental footprint, and governance practices are in line with most companies.

We assign Wells Fargo a Morningstar Uncertainty Rating of Medium.

Capital Allocation Suryansh Sharma, Senior Equity Analyst, 3 Apr 2025

We assign Wells Fargo a Capital Allocation Rating of Standard. While capital investment decisions had been poor for years, there is gathering evidence that those decisions are improving.

In our opinion, the Wells Fargo's balance sheet is sound, its capital investment decisions have been poor for years but have improved more recently to standard, and its capital return strategy is appropriate. We view the bank's current common equity Tier 1 ratio of 11.1% as appropriate. The company's capital investments had been poor for years, as the bank did not make the necessary investments in internal risk monitoring and operational controls, thereby destroying material shareholder value, but we think there is gathering evidence that the company has improved here.

While we had previously wanted the asset cap lifted before rating Wells Fargo as Standard, we don't want to ignore all developments until the asset cap is lifted. The approval of the restructuring plans in February 2021, along with certain acknowledgments from the Office of the Comptroller of the Currency in its fine of Wells (such as a much smaller scope of issues identified), the settlement with the Consumer Financial Protection Bureau and the lifting of certain consent orders all point to the fact that Wells is making good progress on the regulatory front. This was not the case for years before. Improvements in expenses and actually hitting expense targets also point to a new day for the bank.

We assess the company’s capital return strategy as appropriate. Wells Fargo, like most banks, prioritizes organic investment, returns some capital through dividends, and uses extra capital for share repurchases. Wells did have to cut its dividend due to coronavirus-era restrictions, but with an updated dividend policy the current plan seems appropriate.

The issues at the bank over the past several years are many. The bank submitted unsatisfactory resolution plans to the Fed multiple times, has been unable to get past its multiple scandals, and is still under an unprecedented asset cap from the Fed. Under CEO John Stumpf, the bank did a poor job of maintaining a proper sales culture in the bank and did not make the proper investments in risk monitoring or internal controls. With a poor performance in front of Congress, it was the right move for Stumpf to step down in 2016. Tim Sloan faced a difficult tenure as Stumpf's successor, and it does not appear he made much progress with cleaning up the bank while he was in charge.

We believe it is fair to place at least some responsibility for the bank's previous sales practices—and living will deficiencies—on Sloan, as he had worked as the bank's COO, CFO, and chief administrative officer during years when sales abuses were occurring on some level. It also appears that little progress was made under his watch on reforming the bank, with Sloan often presenting a misleading picture to the public about what was actually going on. For example, guiding that the asset cap would probably be removed at the beginning of 2019 now appears laughable.

We believe Charles Scharf has bought a more realistic and effective tenure for Wells Fargo, and capital allocation throughout the bank has improved. Indeed, Scharf has made a number of notable hires, changed the reporting structure, gotten rid of noncore business units, and has executed on many opportunities for cost-cutting, although that has slowed recently. Most importantly, the bank seems to be making progress on the regulatory front. So far we are seeing tangible signs of progress that were missing in the past, such as past consent orders being allowed to expire.

Analyst Notes Archive

US Blanket Tariffs Pose Significant Macroeconomic Risks and Are Unconditionally Bad for US Banks

Suryansh Sharma,Senior Equity Analyst,3 Apr 2025

President Donald Trump unleashed a barrage of tariffs on US trading partners that were significantly more aggressive and broader in scope than the market's expectation. US banks reacted negatively to the tariff announcements, and the US bank index was down more than 8%. Why it matters: The banking business is inherently tied to the macroeconomic performance of the US economy, and any negative impact on the economy will eventually percolate through the US banking industry's profitability. Economic slowdowns (or recessions) have a materially adverse impact on the US banking industry's loan growth, credit costs, investment banking fees, trading profitability, and asset management fees. The bottom line: Given the significant uncertainty associated with the tariff announcements, we are currently in the wait-and-see stance and do not plan to materially change our fair value estimates for US banks. While there are selective opportunities, US banks are fairly valued on average even after today's sharp correction, and we think investors should wait for a bigger margin of safety before going all-in into the sector. Big picture: If the current tariff regime remains in place in the long run, the US banking industry will certainly be hit hard, and the probability of recession will increase substantially. We estimate a midteens percentage fair value estimate decrease for the sector

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63.11 USD 10 Apr 2025	65.00 USD 28 Jan 2025 19:36, UTC	0.97	203.83 USD Bil 11 Apr 2025	Wide	Large Value	Medium	Standard	2 Apr 2025 05:00, UTC

in a bear-case scenario, but the bank stocks can correct significantly more than that in the near term, given the hit to their profitability.

Wells Fargo Earnings: Shares Rise 6% on Encouraging 2025 NII and Expense Guidance Suryansh Sharma,Senior Equity Analyst,15 Jan 2025

Wells Fargo ended the year with a good set of numbers, resulting in fourth-quarter earnings of $1.43 per share, equating to an annualized ROTE of 13.9%. The 2025 guidance was particularly encouraging with projections of NII close to bottoming out and flattish expense growth in the upcoming year. Why it matters: Shares jumped around 6% on good results driven by strength in the fee income franchise and a promising outlook for 2025. Net interest income, or NII, improved slightly on a sequential basis, but the key highlight for us was the continued momentum in fee income streams like asset management, trading, and investment banking, which led to a fee income growth of 11% on a year-over-year basis. 2025 NII is expected to be 1%-3% higher than 2024, implying a growth of 3%-5% from annualized NII in the current quarter. Management projects expenses to be around $54.2 billion in 2025 compared with $54.6 billion in the current year. Key stats: Management expects to achieve $2.4 billion of efficiency savings, $0.7 billion of lower operating losses, and $0.5 billion of lower severance expenses in 2025, which are partially offset by $0.6 billion of higher revenue-related expenses and $1.8 billion of targeted investment spending. The bottom line: We plan on increasing our $60 per share fair value estimate for wide-moat-rated Wells Fargo by a mid- to high-single-digit percentage after incorporating fourth-quarter results and believe that shares are slightly overvalued. Expense control in the upcoming years is key for the bank to achieve its target of 15% return on tangible equity. We are glad the bank is able to carve out efficiencies and is able to invest in technology and other strategic areas while keeping its expense base flat. Coming up: It is difficult to predict the precise timeline of the asset cap removal, but the bank seems to be making good progress. Asset cap removal remains a key monitorable for Wells Fargo and could be a material positive for the stock.

US Banks Election Impact: Tailwinds From Softer Regulation, More M&A, and Steepening Yield Curve Maoyuan Chen,Equity Analyst,15 Nov 2024

We think that the election of Donald Trump and Republican control of both the Senate and the House bring mostly tailwinds to the US banking industry. We will adjust our valuation models as the incoming government's policies solidify, but with a rally of over 10% for many US banks after the Nov. 5 election results, we believe potential tailwinds have largely been incorporated into share prices and view the banking sector as fairly valued to slightly overvalued.We expect less pressure from bank capital regulation, benefiting mainly the big banks. The 2023 Basel III Endgame proposal originally had about a 19% increase in capital for the biggest banks. However, Bloomberg reported in September 2024 that the revised proposal would only increase capital requirement by 9% for the US global systemically important banks. While it will take some time for the final capital regulation to come out, we think the eventual revision for bank capital regulation will end up on the lighter side. This will allow banks to grow their balance sheets more, have higher profitability, and give back more excess capital to shareholders, all else equal.The Republican Party's more friendly stance toward mergers and acquisitions also means the banking industry can see more consolidation, benefiting the regional banks. Through acquisitions, regional banks can enter into new markets, gain new product capabilities, and get more efficient through cost savings. We also think scale is going to be increasingly important as technology rapidly changes.A likely steepening yield curve should add to banks' net interest income. The Federal Reserve is cutting rates on the short end and the 10-year US Treasury yield is picking up after the election as the market is pricing in likely higher inflation in the long term. Because banks lend long and borrow short, an upward-sloping yield curve is better for bank earnings than a flat or inverted yield curve.

Wells Fargo Earnings: Strong Fee Income and Expense Control Mark a Good Quarter Suryansh Sharma,Senior Equity Analyst,11 Oct 2024

Wide-moat-rated Wells Fargo reported a good set of results, as fee income was strong and expenses were largely controlled. The shares were trading around 6% higher after the bank reported its results. The net interest income decline during the quarter was largely expected but the tepid performance of the bank in terms of loan growth was the only negative for us during the quarter. The headwind from NIM compression in the upcoming quarters is expected to be offset by balance sheet growth even as the performance of Wells Fargo compared with JPMorgan was slightly disappointing in terms of loan growth, with its average loan balances down about 3.5% on a year-over-year basis and 0.8% on a sequential basis. We do expect loan growth to pick up in upcoming quarters as declining interest rates generate more demand for loans.The bank reported earnings of $5.1 billion or $1.42 per share in the third quarter, which included a $0.10 per share nonrecurring loss related to the repositioning of its investment securities portfolio. The repositioning led to the recognition of loss in the current quarter, but it should also lead to higher interest income in future quarters. The earnings per share grew by 2.7% on a year-over-year basis after excluding the impact of nonrecurring loss from portfolio repositioning. The third-quarter numbers resulted in a return on tangible equity of 13.9%, which is slightly lower than the 15.0% target that management has previously talked about. We are maintaining our $60 per share fair value estimate for Wells Fargo as we incorporate these third-quarter results. The shares of the bank are up by more than 50% in the past year, and we believe that the bank is fairly valued.The bank reported an NII of $11.7 billion in the third quarter, 11% lower on a year-over-year basis due to NIM contraction. The bank's NIM was reported at 2.67% in the current quarter compared with 2.75% in the previous quarter and 3.03% in the same quarter of the previous year.

Wells Fargo Earnings: Shares Tumble 6% on Updated Expense Guidance; Trading Revenue Still Strong Suryansh Sharma,Senior Equity Analyst,12 Jul 2024

Wide-moat-rated Wells Fargo reported second-quarter EPS of $1.33 per share which compares with

$1.25 per share in the same quarter of the previous year. Shares of the bank tumbled around 6% on the news of the updated 2024 expense guidance, which was a slight disappointment given the importance of controlling expenses for the bank. Trading revenue came in quite strong at $1.4 billion, which was an near all-time high for the bank. The second-quarter numbers resulted in a return on tangible equity of 13.7%, still below the management's medium-term target of 15%. We do not plan to materially change our $58 fair value estimate for Wells Fargo as we fully incorporate second-quarter results.The bank's full-year 2024 net interest income, or NII, guidance was changed to 8%-9% lower (previous guidance was 7%-9% lower) than the full-year 2023 level of $52.4 billion driven by loan balance declines and higher funding cost. Management still believes that the bank will likely see a trough of NII toward the end of 2024. In our opinion, the bank is not likely to see material growth in NII for a couple of years even beyond 2024 given the asset sensitivity of the bank's balance sheet. We project that NII will start to grow materially only after the current rate-cutting cycle is fully played out. The counter-argument to this is that loan growth should help offset any NIM compression for the bank in the upcoming years. We think this is possible but seems unlikely given the lackluster demand for loans in the economy. In terms of noninterest expense guidance, the bank now expects 2024 expenses to be $54 billion (including $336 million in FDIC charges and higher operating losses), 2.7% higher than the previous guidance of $52.6 billion. The increase in expense guidance was mainly driven by higher revenue-related compensation and higher operating losses. We expect operating losses to remain a lingering factor until regulatory issues are fully resolved.

Wells Fargo Earnings: Net Interest Income Guidance Unchanged; Trading Revenue Came in Strong

Suryansh Sharma,Senior Equity Analyst,12 Apr 2024

Wide-moat-rated Wells Fargo reported first-quarter EPS of $1.20 per share, ahead of the FactSet consensus estimate of $1.06 per share. Trading revenue came in quite strong at $1.4 billion, which was an all-time high for the bank. Excluding the one-time FDIC special assessment of $284 million for uninsured deposits of certain failed banks during the banking turmoil of early 2023, the core operating results came in at $1.26 per share. The first-quarter numbers resulted in a return on tangible equity of 12.3%, still below management's medium target of 15%.Wells Fargo's 2024 outlook was unchanged compared with the last update, and we view the unchanged net interest income, or NII, outlook as slightly disappointing. As Wells remains asset-sensitive, we had hoped to see a better full-year 2024 NII outlook as the market now expects only three Fed rate cuts compared with six cuts expected at the beginning of 2024. The bank's full-year 2024 NII guidance remains at around 7%-9% lower than the full-year 2023 level of $52.4 billion. Management believes that the bank will likely see a trough of NII toward the end of 2024. In our opinion, the bank is not likely to see material growth in NII for a couple of years even beyond 2024. We project that NII will start to grow materially after the current interest rate cutting cycle is fully played out. We like that the 2024 full-year expense guidance was unchanged at $52.6 billion. The bank's shares have rallied by around 45% from their October 2023 lows as the market got excited about the prospects of interest rate cuts and the general banking outlook improved. Wells Fargo was one of our top US bank picks for much of 2023 given its relatively attractive valuation, but it is now trading close to our fair value estimate. We might make slight changes to our near-term forecasts, but we do not plan to materially change our $58 fair value estimate for Wells Fargo as we fully incorporate the first-quarter results.

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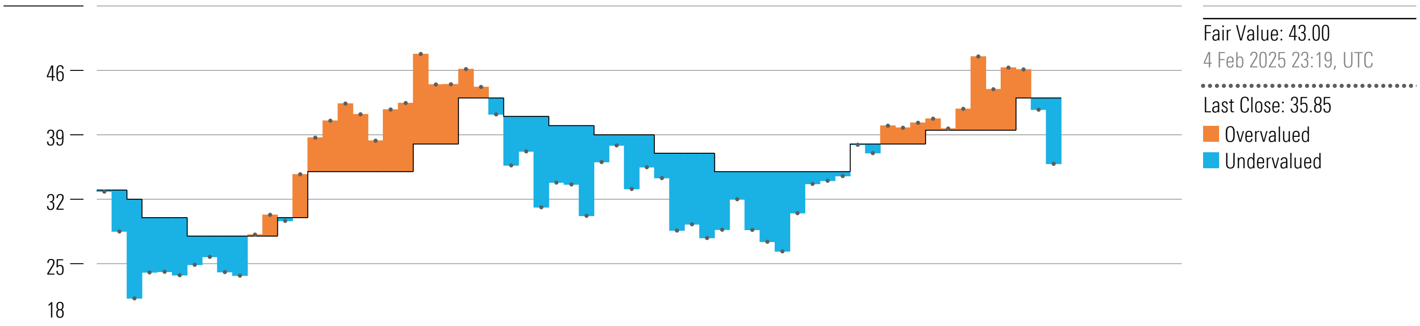
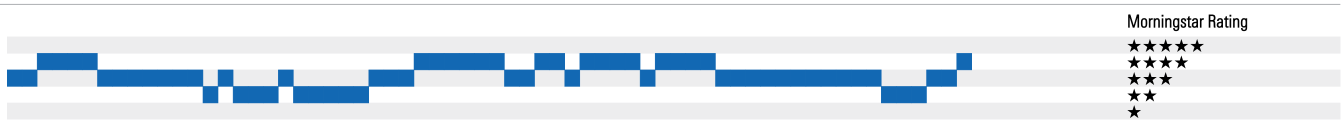
Wells Fargo & Co WFC ★★★ 10 Apr 2025 21:35, UTC

Competitors Price vs. Fair Value

Bank of America Corp BAC

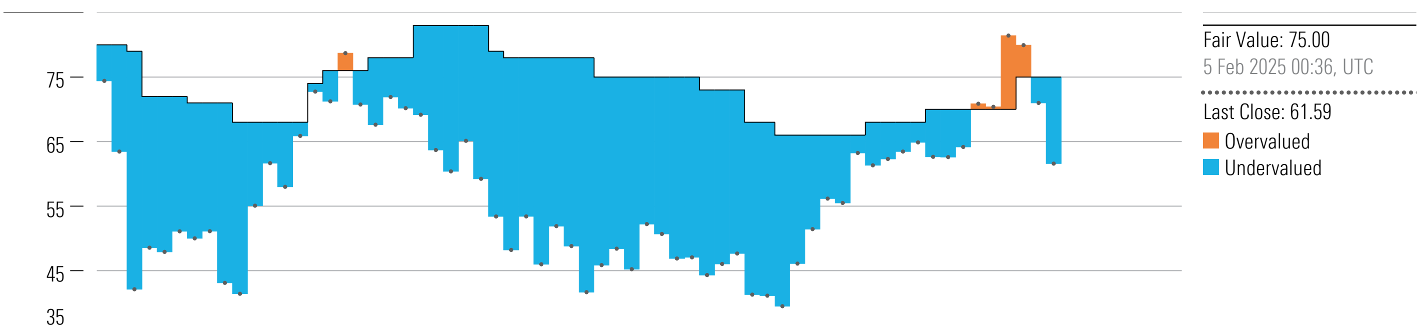


	2020	2021	2022	2023	2024	YTD	
	1.08	1.17	0.85	0.96	1.11	0.83	Price/Fair Value
	-11.90	49.36	-23.62	4.44	33.50	-17.84	Total Return %

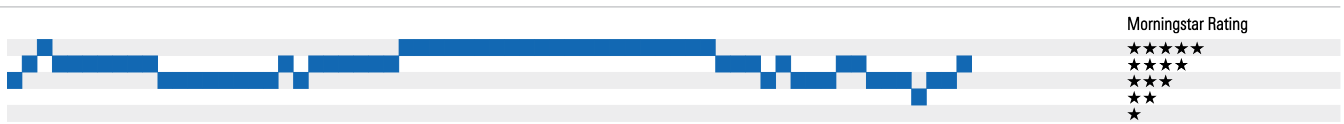


Total Return % as of 10 Apr 2025. Last Close as of 10 Apr 2025. Fair Value as of 4 Feb 2025 23:19, UTC.

Citigroup Inc C



	2020	2021	2022	2023	2024	YTD	
	0.91	0.73	0.60	0.78	1.01	0.82	Price/Fair Value
	-20.27	1.25	-21.73	18.33	41.08	-11.71	Total Return %



Total Return % as of 10 Apr 2025. Last Close as of 10 Apr 2025. Fair Value as of 5 Feb 2025 00:36, UTC.

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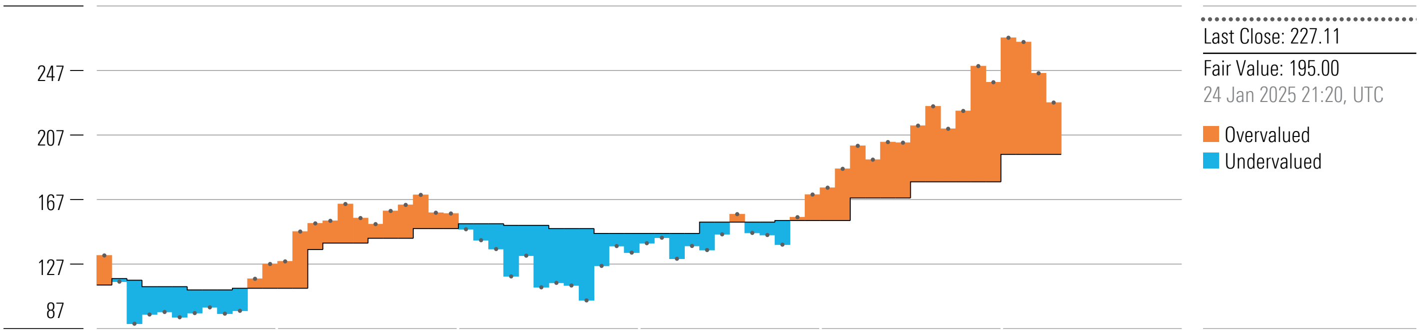
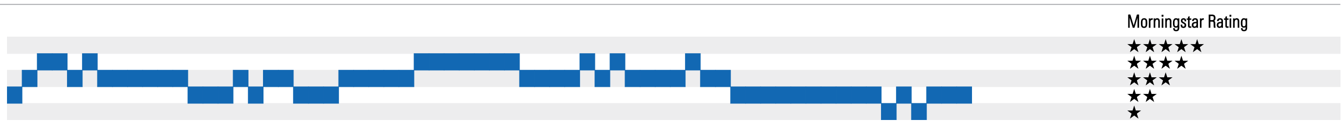
Competitors Price vs. Fair Value

JPMorgan Chase & Co JPM



	2020	2021	2022	2023	2024	YTD	
	1.13	1.06	0.92	1.10	1.35	1.16	Price/Fair Value
	-6.26	27.53	-12.79	29.87	43.63	-4.15	Total Return %



Total Return % as of 10 Apr 2025. Last Close as of 10 Apr 2025. Fair Value as of 24 Jan 2025 21:20, UTC.

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Wells Fargo & Co WFC ★★★ 10 Apr 2025 21:35, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
63.11 USD 10 Apr 2025	65.00 USD 28 Jan 2025 19:36, UTC	0.97	203.83 USD Bil 11 Apr 2025	Wide	Large Value	Medium	Standard	2 Apr 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 28 Jan 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
Net Interest Income (USD Mil)	44,950	52,375	47,676	48,293	48,099	50,400	53,829	55,786
Non Interest Income (USD Mil)	29,490	30,653	34,470	33,121	33,526	34,321	35,434	36,536
Total Pre-Provision Revenue (USD Mil)	74,440	83,028	82,146	81,414	81,625	84,721	89,264	92,321
Provision for Loan Losses (USD Mil)	1,534	5,399	4,334	4,715	5,488	4,861	5,536	5,588
Operating Expenses (USD Mil)	57,282	55,562	54,598	54,304	55,272	56,521	57,840	59,149
Operating Income (USD Mil)	15,624	22,067	23,214	22,395	20,865	23,339	25,888	27,585
Net Income Available to Common Stockholders (USD Mil)	13,182	19,142	19,722	19,171	17,956	19,984	22,074	23,475
Adjusted Net Income (USD Mil)	12,067	17,982	18,606	18,041	16,811	18,825	20,901	22,287
Weighted Average Diluted Shares Outstanding (Mil)	3,837	3,720	3,468	3,377	3,263	3,174	3,052	2,953
Earnings Per Share (Diluted) (USD)	3.14	4.83	5.37	5.34	5.15	5.93	6.85	7.55
Adjusted Earnings Per Share (Diluted) (USD)	3.14	4.83	5.37	5.34	5.15	5.93	6.85	7.55
Dividends Per Share (USD)	1.10	1.30	1.50	1.50	1.55	1.78	2.19	2.41

Margins & Returns as of 28 Jan 2025		Actual			Forecast					
	3 Year Avg	2022	2023	2024	2025	2026	2027	2028	2029	5 Year Avg
Net Interest Margin %	2.8	2.6	3.1	2.7	2.8	2.7	2.8	2.9	2.9	2.8
Efficiency Ratio %	70.4	77.6	67.3	66.3	65.7	66.7	65.7	63.9	63.1	65.0
Provision as % of Loans	0.4	0.2	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.5

Growth & Ratios as of 28 Jan 2025		Actual			Forecast					
	3 Year Avg	2022	2023	2024	2025	2026	2027	2028	2029	5 Year Avg
Net Interest Income Growth %	10.0	25.6	16.5	-9.0	1.3	-0.4	4.8	6.8	3.6	3.2
Non Interest Income Growth %	-1.2	-17.5	3.9	12.5	-3.9	1.2	2.4	3.2	3.1	1.2
Total Pre-Provision Revenue Growth %	—	4.1	11.5	-1.1	-0.9	0.3	3.8	5.4	3.4	—
Operating Expenses Growth %	—	6.4	-3.0	-1.7	-0.5	1.8	2.3	2.3	2.3	—
Operating Income Growth %	—	-48.1	44.5	8.0	1.1	-6.4	11.3	10.5	6.4	—
Net Income Growth %	-2.8	-38.8	45.2	3.0	-2.8	-6.3	11.3	10.5	6.3	—
Earnings Per Share Growth %	2.8	-36.4	53.7	11.0	-0.4	-3.6	15.1	15.5	10.2	7.1

Valuation as of 28 Jan 2025	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Price/Earning	13.1	10.2	13.1	11.8	12.3	10.6	9.2	8.4
Price/Book	—	—	—	—	—	—	—	—
Price/Tangible Book	1.3	1.4	1.9	1.6	1.5	1.4	1.3	1.2
Dividend Yield %	2.6	2.1	2.5	2.4	2.5	2.8	3.5	3.8
Dividend Payout %	34.7	26.7	27.6	27.7	29.6	29.6	31.6	31.6

Operating Performance / Profitability as of 28 Jan 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
ROA %	0.7	1.0	1.0	1.0	0.9	1.0	1.1	1.1
ROE %	7.2	10.5	10.8	10.5	9.6	10.4	11.1	11.5
Return on Tangible Equity %	9.3	14.0	14.3	13.8	12.4	13.4	14.4	14.8

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Wells Fargo & Co WFC ★★★ 10 Apr 2025 21:35, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
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Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
Equity/Assets %	9.6	9.6	9.3	9.6	9.6	9.6	9.6	9.6

Forecast Revisions as of	2025		2026		2027	
Prior data as of	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	65.00	—	—	—	—	—
Net Interest Income (USD Mil)	48,293	48,272	48,099	49,463	50,400	48,858
Total Pre-Provision Revenue (USD Mil)	81,414	81,520	81,625	81,140	84,721	80,564
Operating Income (USD Mil)	22,395	23,004	20,865	21,917	23,339	20,296
Net Income (USD Mil)	—	—	—	—	—	—
Earnings Per Share (Diluted) (USD)	5.34	5.32	5.15	5.37	5.93	5.08
Adjusted Earnings Per Share (Diluted) (USD)	5.34	5.32	5.15	5.37	5.93	5.08
Dividends Per Share (USD)	1.50	1.60	1.55	1.61	1.78	1.78

Key Valuation Drivers as of 28 Jan 2025

Cost of Equity %	9.0
Stage II Net Income Growth Rate %	3.0
Stage II Incremental ROIC %	11.0
Perpetuity Year	20

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 28 Jan 2025

	USD Mil
Present Value Stage I	0
Present Value Stage II	0
Present Value of the Perpetuity	0
Total Common Equity Value before Adjustment	**0**
Other Adjustments	—
Equity Value	**228,272**
Projected Diluted Shares	3,505
Fair Value per Share (USD)	**65.00**

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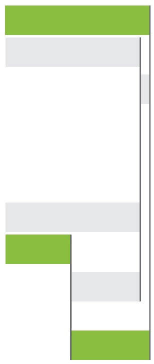
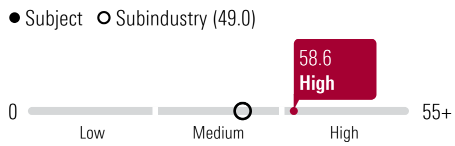
Wells Fargo & Co WFC ★★★ 10 Apr 2025 21:35, UTC

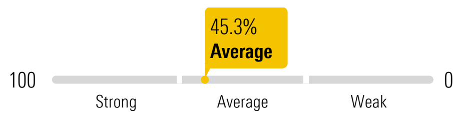
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
63.11 USD 10 Apr 2025	65.00 USD 28 Jan 2025 19:36, UTC	0.97	203.83 USD Bil 11 Apr 2025	Wide	Large Value	Medium	Standard	2 Apr 2025 05:00, UTC

ESG Risk Rating Breakdown

Exposure		
Company Exposure[1]	58.6
– Manageable Risk	54.7
Unmanageable Risk[2]	**3.9**
Management		
Manageable Risk	54.7
– Managed Risk[3]	24.8
Management Gap[4]	**29.9**
Overall Unmanaged Risk	**33.8**







- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating

ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 45.3% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Apr 02, 2025. Highest Controversy Level is as of Apr 08, 2025. Sustainalytics Subindustry: Diversified Banks. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 02 Apr 2025

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure			Management			ESG Risk Rating		
Wells Fargo & Co	58.6 | High	0	55+	45.3 | Average	100	0	33.8 | High	0	40+
Bank of America Corp	53.2 | Medium	0	55+	58.4 | Strong	100	0	24.4 | Medium	0	40+
Citigroup Inc	53.3 | Medium	0	55+	69.5 | Strong	100	0	18.9 | Low	0	40+
JPMorgan Chase & Co	53.7 | Medium	0	55+	52.9 | Strong	100	0	27.3 | Medium	0	40+
—	— | —	0	55+	— | —	100	0	— | —	0	40+

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Appendix
Historical Morningstar Rating

Wells Fargo & Co WFC 10 Apr 2025 21:35, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	—	★★★	★★	★★	★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
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Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★	★★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★	★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★

Bank of America Corp BAC 10 Apr 2025 21:32, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	—	★★★★	★★★	★★★	★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
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Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
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Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★

Citigroup Inc C 10 Apr 2025 21:32, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	—	★★★★	★★★	★★★	★★
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Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
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Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
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Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★	★★★

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Dec 2025 —	Nov 2025 —	Oct 2025 —	Sep 2025 —	Aug 2025 —	Jul 2025 —	Jun 2025 —	May 2025 —	Apr 2025 ★★	Mar 2025 ★★	Feb 2025 ★★	Jan 2025 ★
Dec 2024 ★★	Nov 2024 ★	Oct 2024 ★★	Sep 2024 ★★	Aug 2024 ★★	Jul 2024 ★★	Jun 2024 ★★	May 2024 ★★	Apr 2024 ★★	Mar 2024 ★★	Feb 2024 ★★	Jan 2024 ★★
Dec 2023 ★★★	Nov 2023 ★★★	Oct 2023 ★★★★	Sep 2023 ★★★	Aug 2023 ★★★	Jul 2023 ★★★	Jun 2023 ★★★	May 2023 ★★★★	Apr 2023 ★★★	Mar 2023 ★★★★	Feb 2023 ★★★	Jan 2023 ★★★
Dec 2022 ★★★	Nov 2022 ★★★	Oct 2022 ★★★★	Sep 2022 ★★★★	Aug 2022 ★★★★	Jul 2022 ★★★★	Jun 2022 ★★★★	May 2022 ★★★★	Apr 2022 ★★★★	Mar 2022 ★★★	Feb 2022 ★★★	Jan 2022 ★★★
Dec 2021 ★★★	Nov 2021 ★★★	Oct 2021 ★★	Sep 2021 ★★	Aug 2021 ★★	Jul 2021 ★★★	Jun 2021 ★★★	May 2021 ★★	Apr 2021 ★★★	Mar 2021 ★★	Feb 2021 ★★	Jan 2021 ★★
Dec 2020 ★★★	Nov 2020 ★★★	Oct 2020 ★★★	Sep 2020 ★★★	Aug 2020 ★★★	Jul 2020 ★★★	Jun 2020 ★★★★	May 2020 ★★★	Apr 2020 ★★★★	Mar 2020 ★★★★	Feb 2020 ★★★	Jan 2020 ★★

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

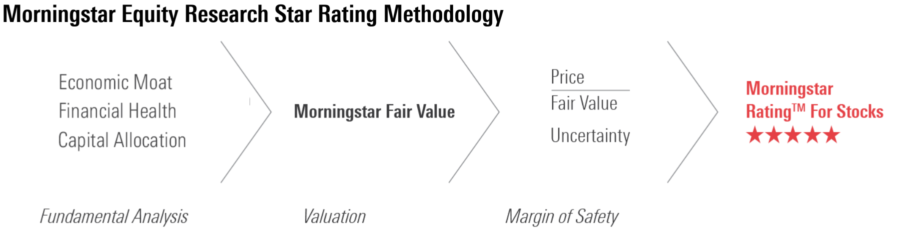
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and any-

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

thing that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

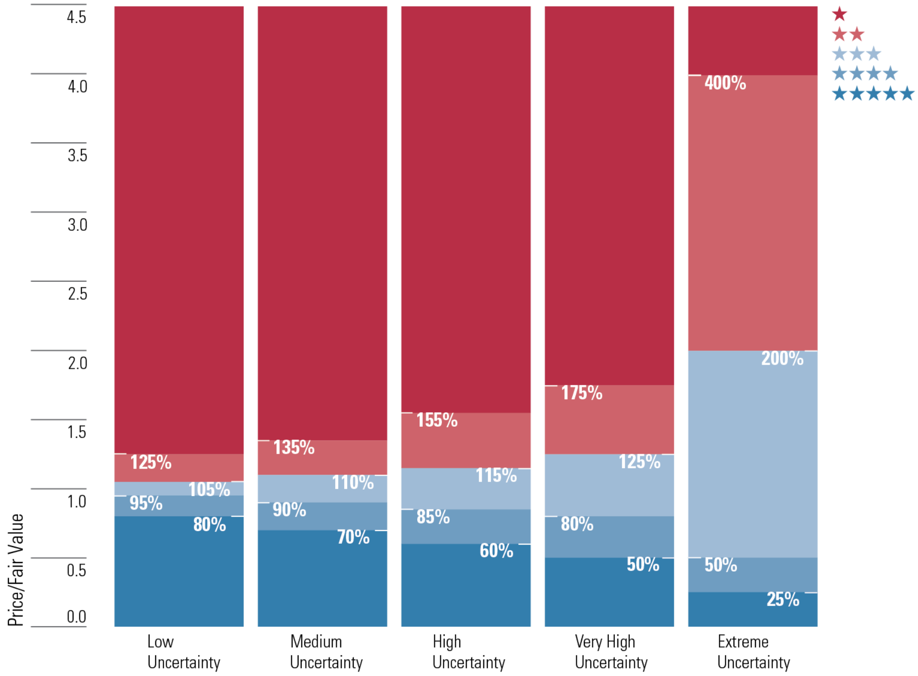
4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider compan-

Research Methodology for Valuing Companies

ies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

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