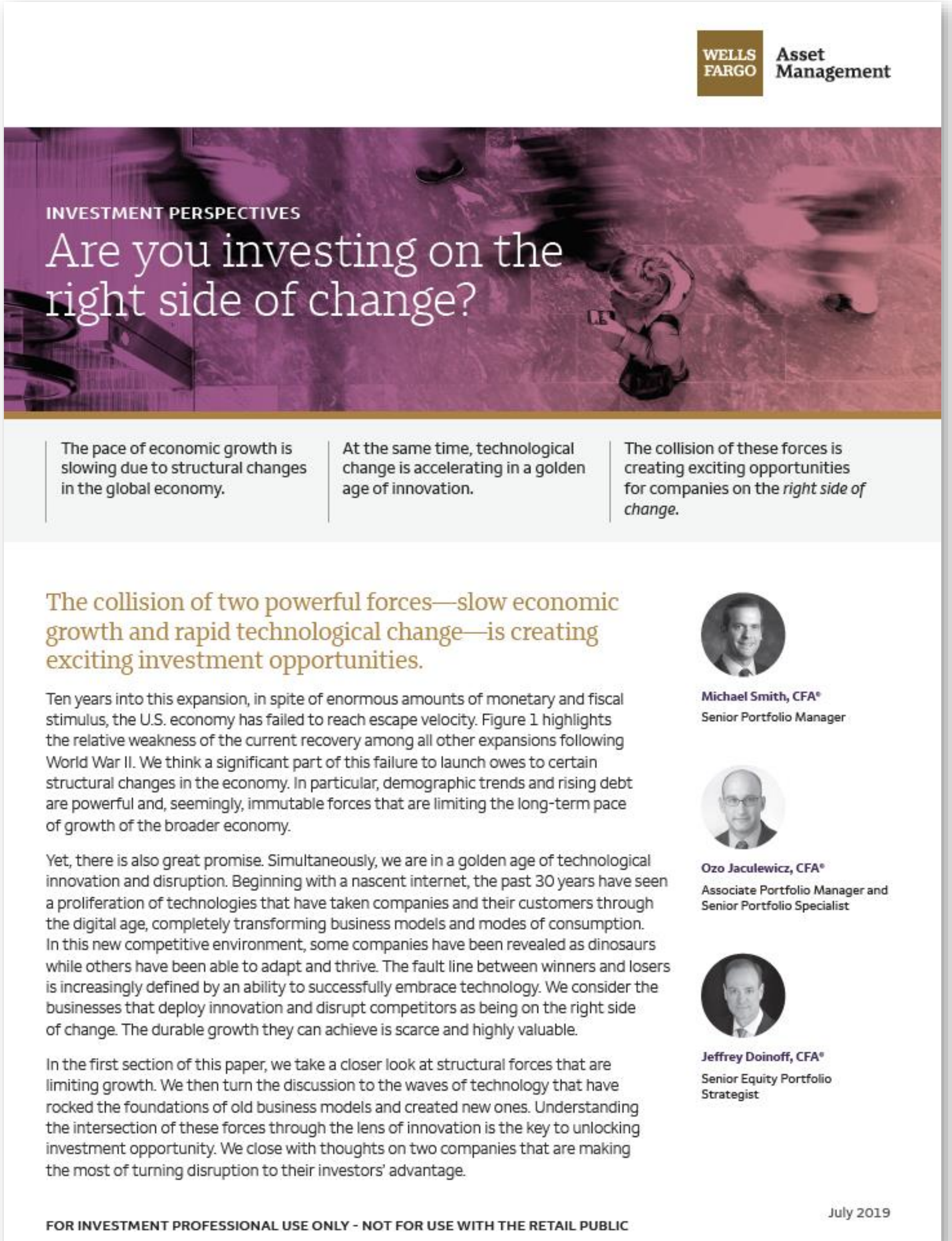
Wells Fargo Asset Management

MARKETING COMMUNICATION

Right Side of Change Framework

MAPERS

Right Side of Change



WELLS FARGO Asset Management

INVESTMENT PERSPECTIVES

Are you investing on the right side of change?

The pace of economic growth is slowing due to structural changes in the global economy.

At the same time, technological change is accelerating in a golden age of innovation.

The collision of these forces is creating exciting opportunities for companies on the *right side of change*.

The collision of two powerful forces—slow economic growth and rapid technological change—is creating exciting investment opportunities.

Ten years into this expansion, in spite of enormous amounts of monetary and fiscal stimulus, the U.S. economy has failed to reach escape velocity. Figure 1 highlights the relative weakness of the current recovery among all other expansions following World War II. We think a significant part of this failure to launch owes to certain structural changes in the economy. In particular, demographic trends and rising debt are powerful and, seemingly, immutable forces that are limiting the long-term pace of growth of the broader economy.

Yet, there is also great promise. Simultaneously, we are in a golden age of technological innovation and disruption. Beginning with a nascent internet, the past 30 years have seen a proliferation of technologies that have taken companies and their customers through the digital age, completely transforming business models and modes of consumption. In this new competitive environment, some companies have been revealed as dinosaurs while others have been able to adapt and thrive. The fault line between winners and losers is increasingly defined by an ability to successfully embrace technology. We consider the businesses that deploy innovation and disrupt competitors as being on the right side of change. The durable growth they can achieve is scarce and highly valuable.

In the first section of this paper, we take a closer look at structural forces that are limiting growth. We then turn the discussion to the waves of technology that have rocked the foundations of old business models and created new ones. Understanding the intersection of these forces through the lens of innovation is the key to unlocking investment opportunity. We close with thoughts on two companies that are making the most of turning disruption to their investors' advantage.

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July 2019

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“There’s only three types of companies.

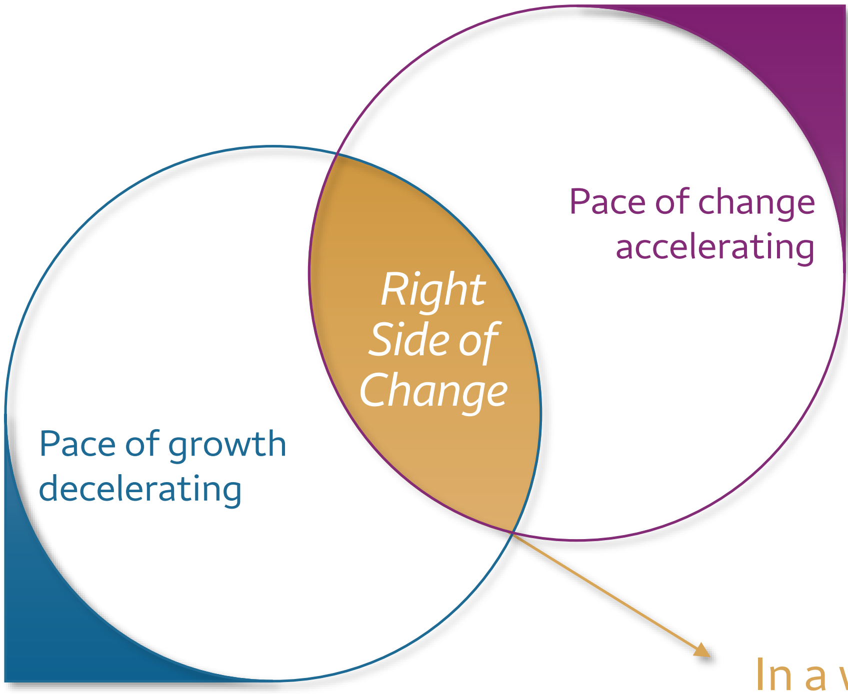
1 Companies that are technology companies,

2 Companies that are becoming technology companies,

3 Companies that are being disrupted by technology companies.”

Source: Scott Farquhar, Co-Founder and Co-CEO, Atlassian Corporation. Interview with Protocol April 4, 2020.

Right Side of Change Framework



Innovation and disruption

- The pace of technological change is accelerating
- Technological disruption is broadening out to impact all industries
- Innovation is frequently mispriced in public markets

In a world starved of growth, a scarcity premium is awarded to companies on the *Right Side of Change*

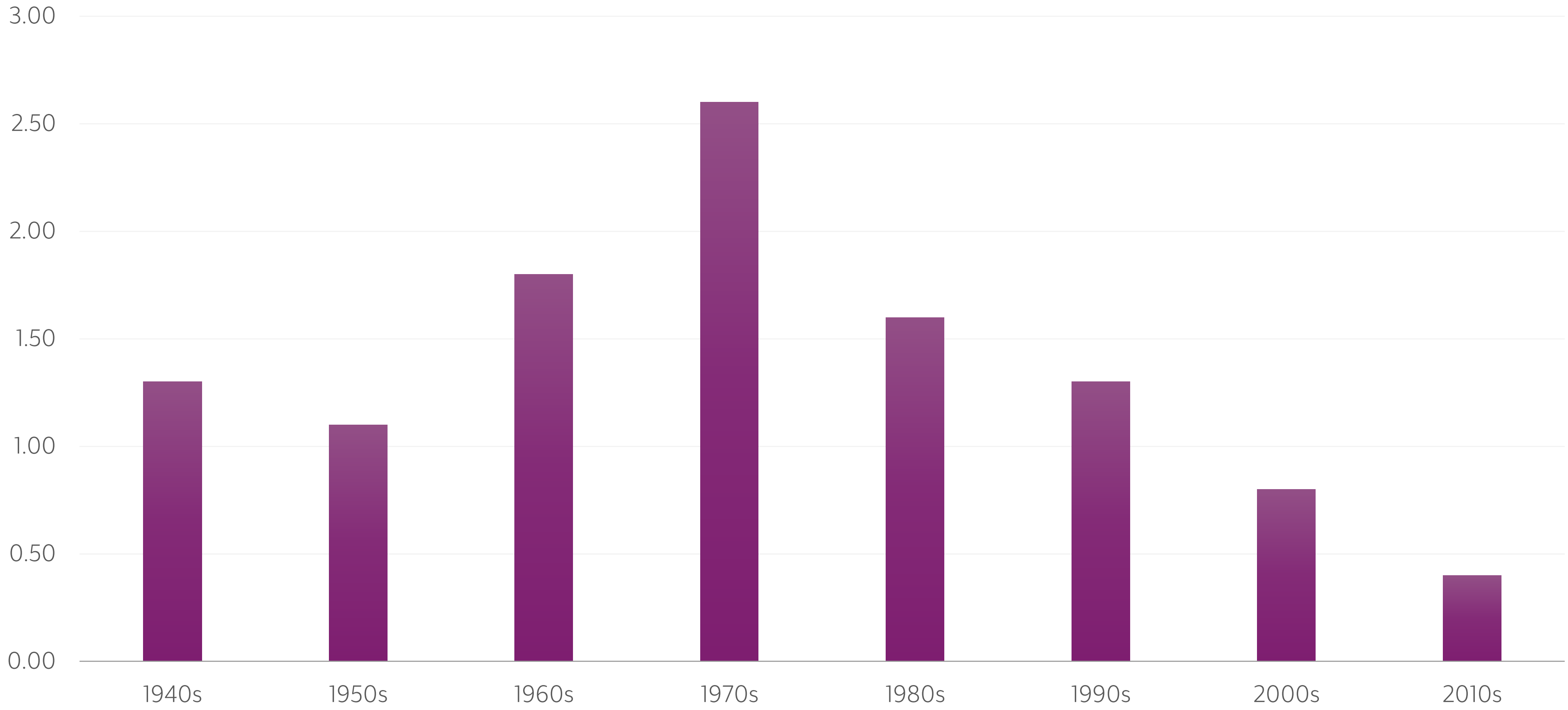
Economic growth

- The pace of economic growth is slowing
- Structural forces such as demographics and labor market play a major role
- Inflation and interest rates likely to remain low

Demographics are slowing growth

Decline in growth rate of the labor force

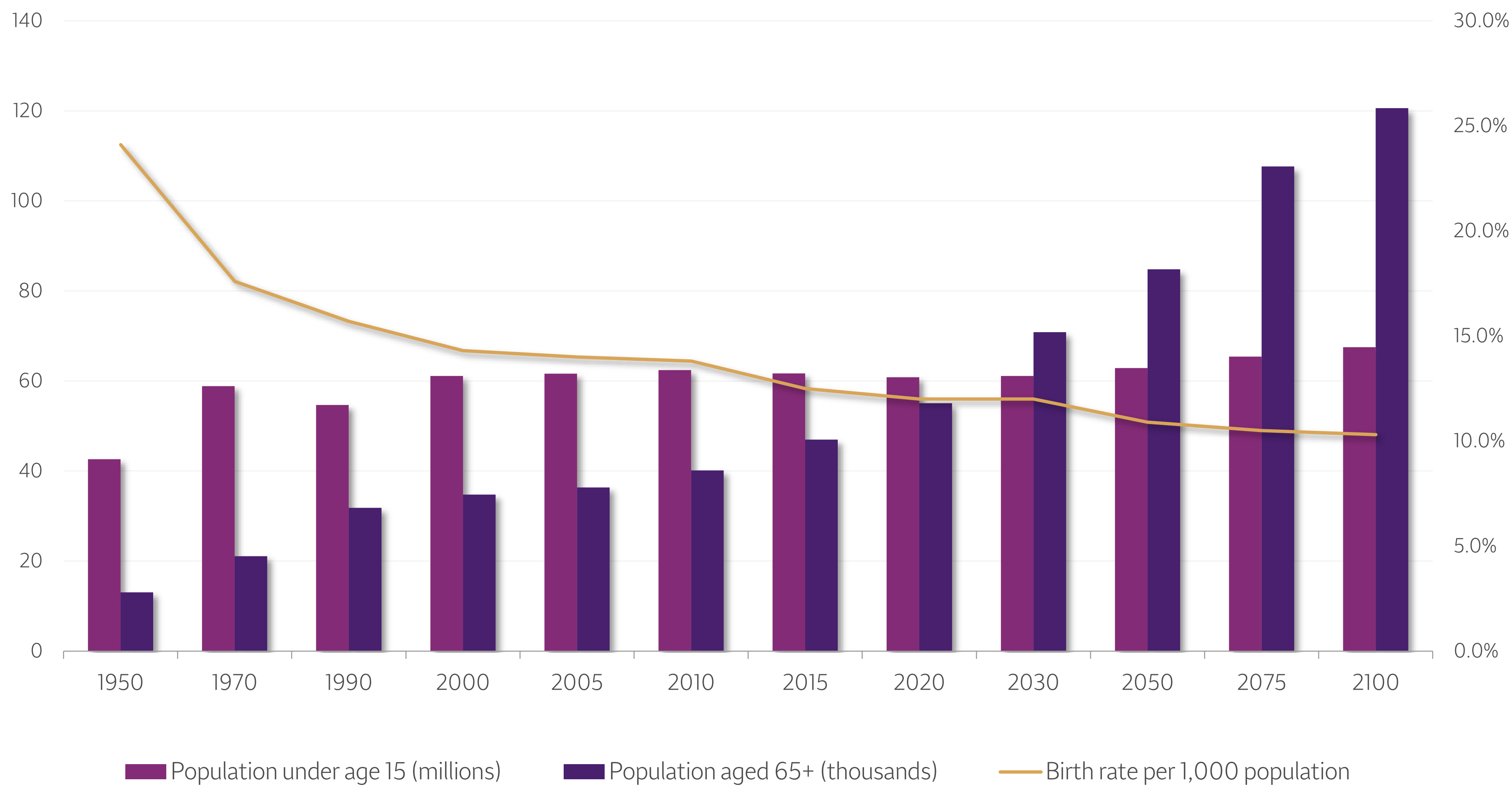
Civilian labor force growth rate



Source: NATIONAL BUREAU OF ECONOMIC RESEARCH, POPULATION GROWTH TO FIRM DEMOGRAPHICS: IMPLICATIONS FOR CONCENTRATION, ENTREPRENEURSHIP AND THE LABOR SHARE, Working Paper 25382, December 2018.

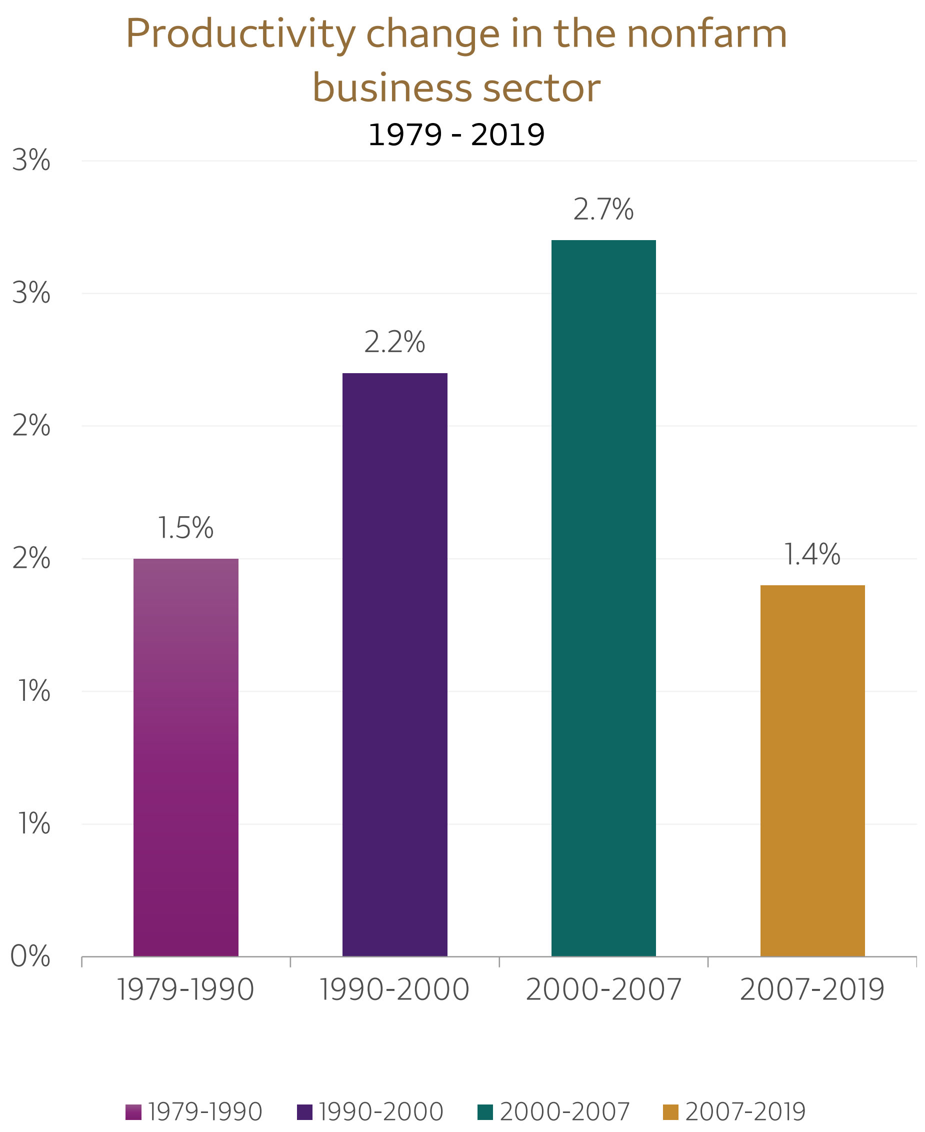
Demographics Are Changing

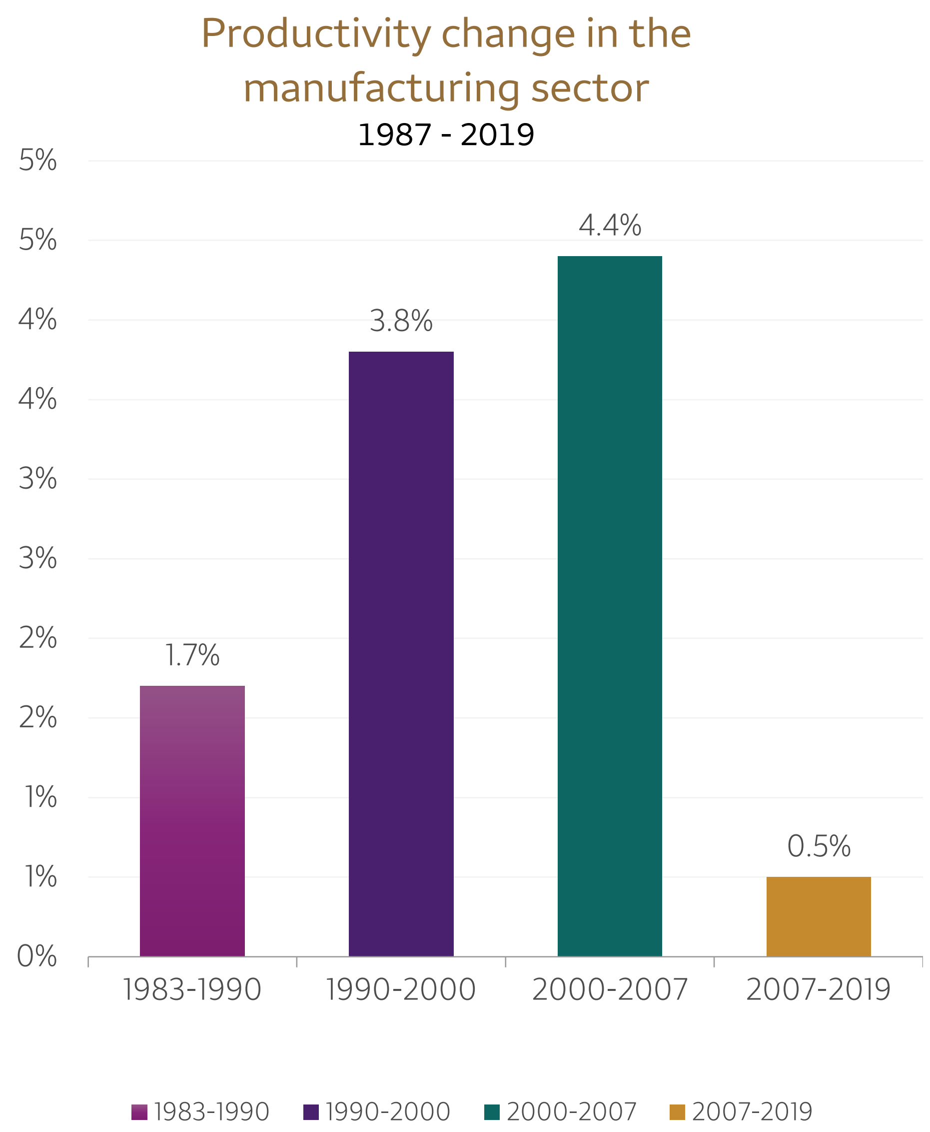
The aging of America and decline in birth rates reduces labor output in the future



Source: United Nations; Department of Economic and Social Affairs; World Population Prospects 2019

Productivity has structurally declined

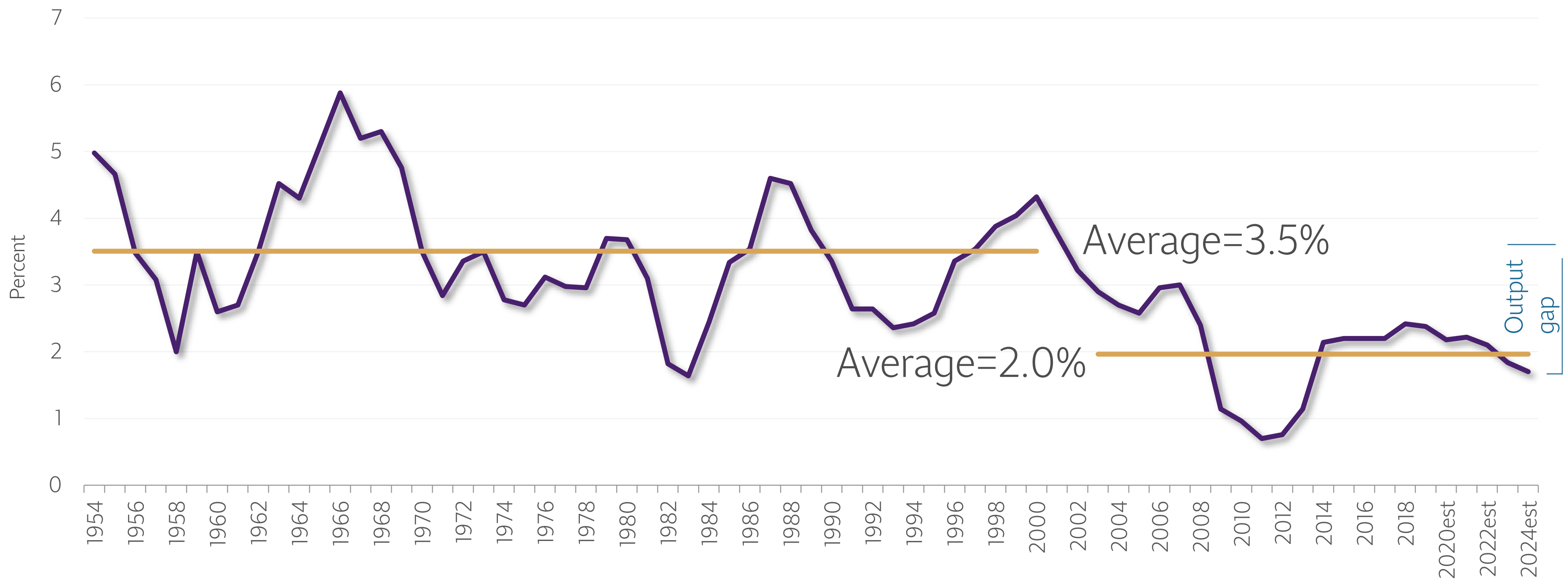




Source: U.S. Bureau of Labor Statistics; https://www.bls.gov/lpc/prodybar.htm; as of 8/14/2020

Output gap

A lower aggregate growth rate of the U.S. economy may be a “new normal” that investors face

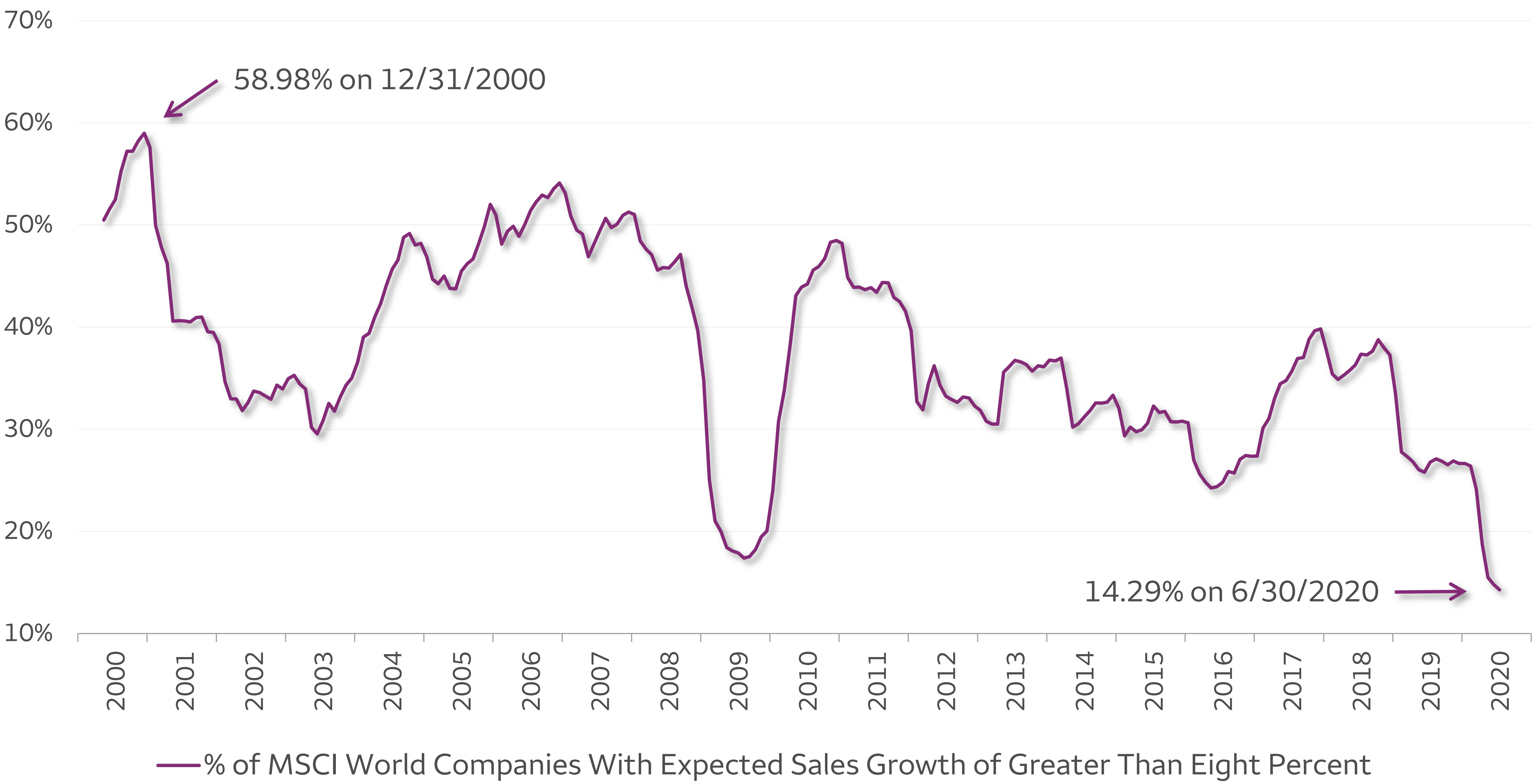


Sources: BEA for actual years 1950-2018; IMF for estimate 2019-2024; calculated as five-year moving average.. **Estimated data is not a promise or guarantee of future results.**

Fewer companies can truly grow

Companies with sales growth of greater than 8% are in secular decline

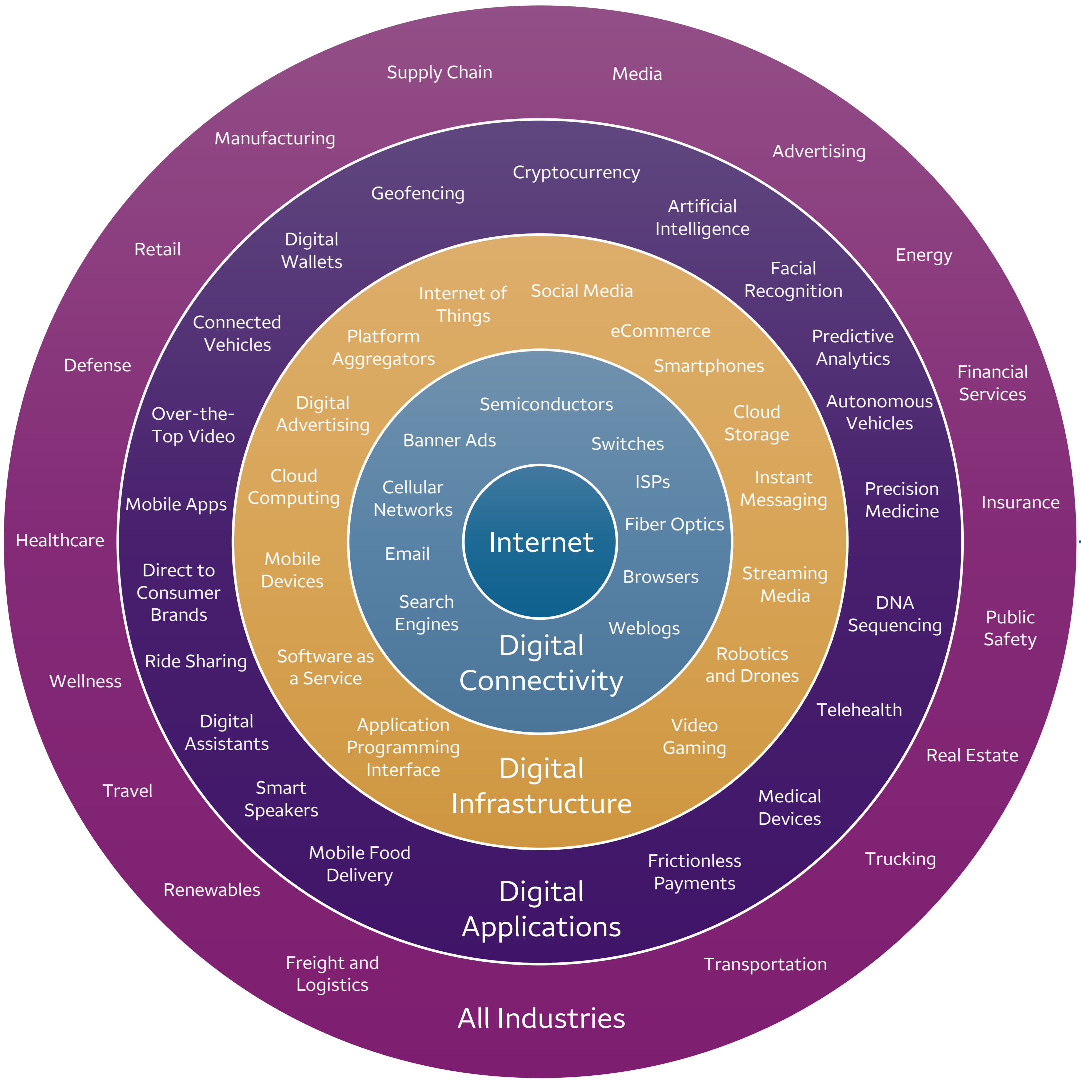
As of June 30, 2020



Source: FactSet, based on monthly calculations on companies in the MSCI World Index from 7/1/2000 through 6/30/2020.

Technological disruption is broadening out

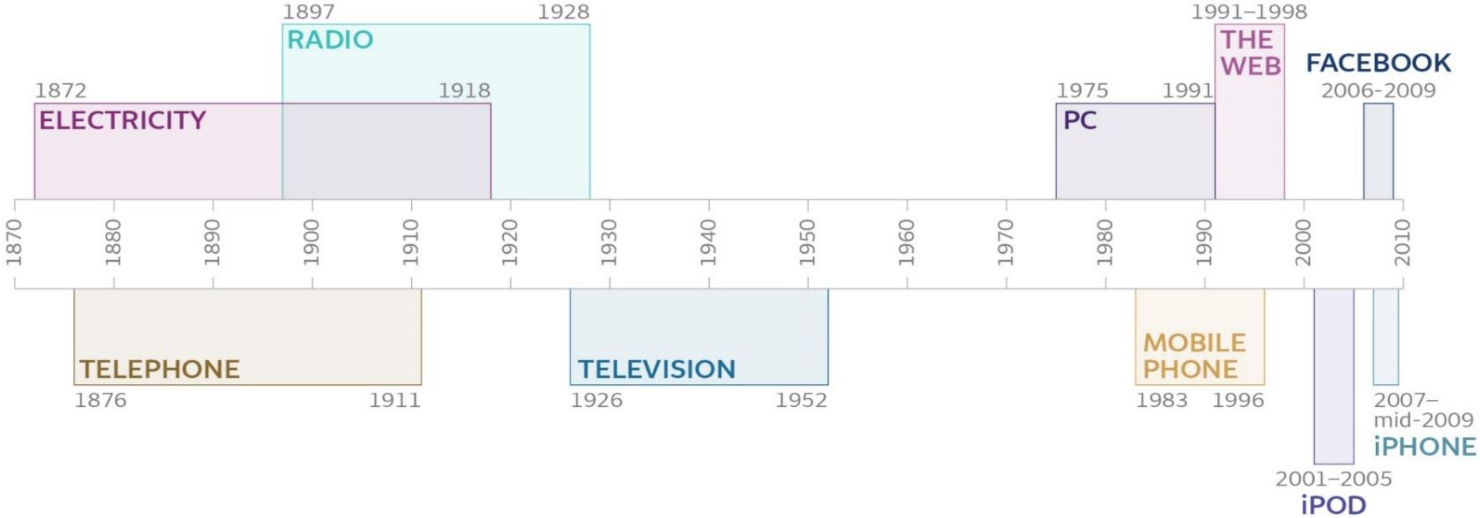
Over time, innovation ripples through all facets of the economy



Accelerating disruption creates winners and losers

The pace of adoption is accelerating

As a result, the window of mass adoption is shrinking:



ELECTRICITY
Developed in 1872
46 years until mass adoption

TELEPHONE
Developed in 1876
35 years until mass adoption

RADIO
Developed in 1897
31 years until mass adoption

TELEVISION
Developed in 1926
26 years until mass adoption

PC
Developed in 1975
16 years until mass adoption

MOBILE PHONE
Developed in 1983
13 years until mass adoption

THE WEB
Developed in 1991
7 years until mass adoption

iPOD
Developed in 2001
4 years until mass adoption

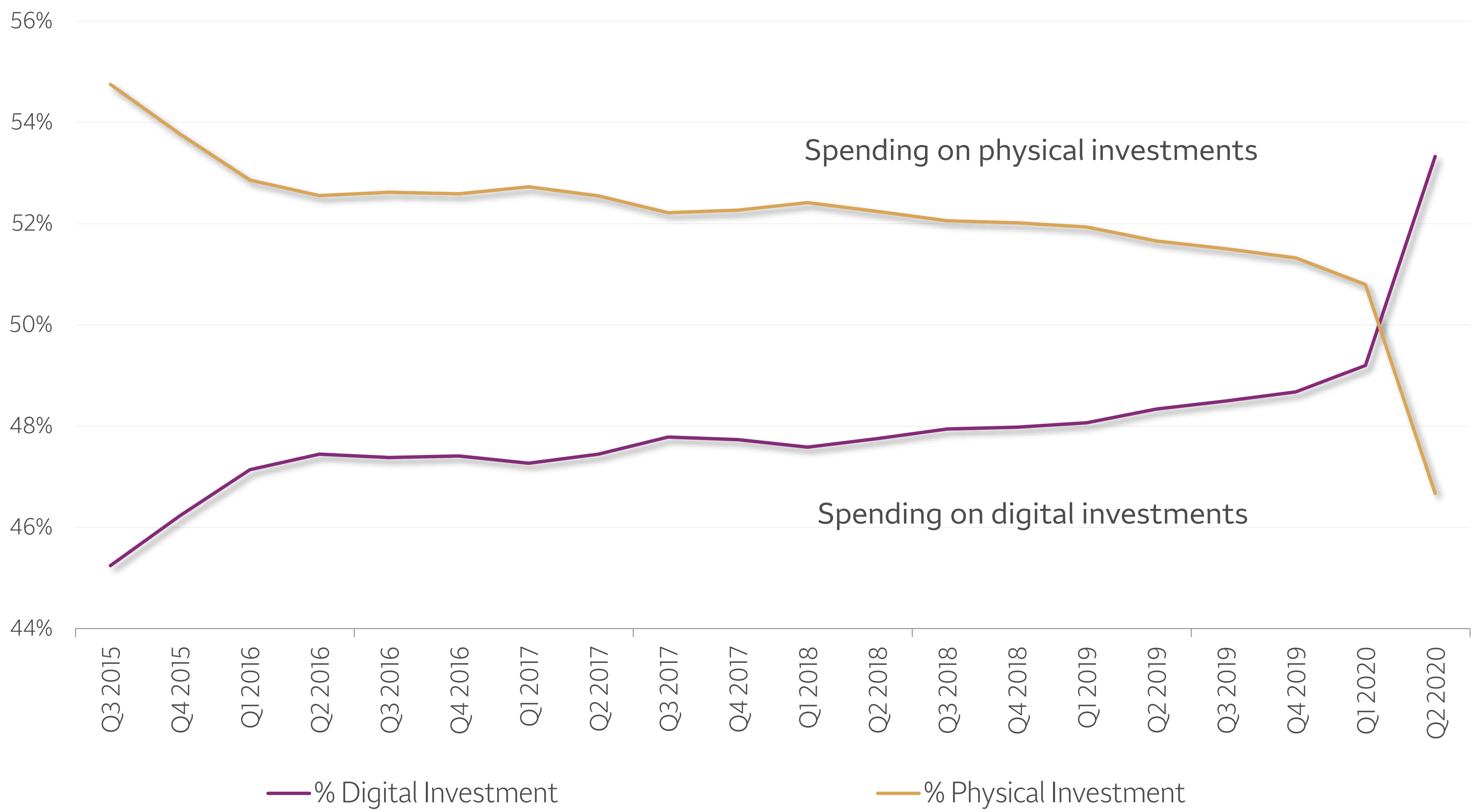
FACEBOOK
Developed in 2006
3 years until mass adoption

iPHONE
Developed in 2007
2.5 years until mass adoption

Source: Augment and RBC Capital Markets.

COVID-19 is accelerating the *Right Side of Change*

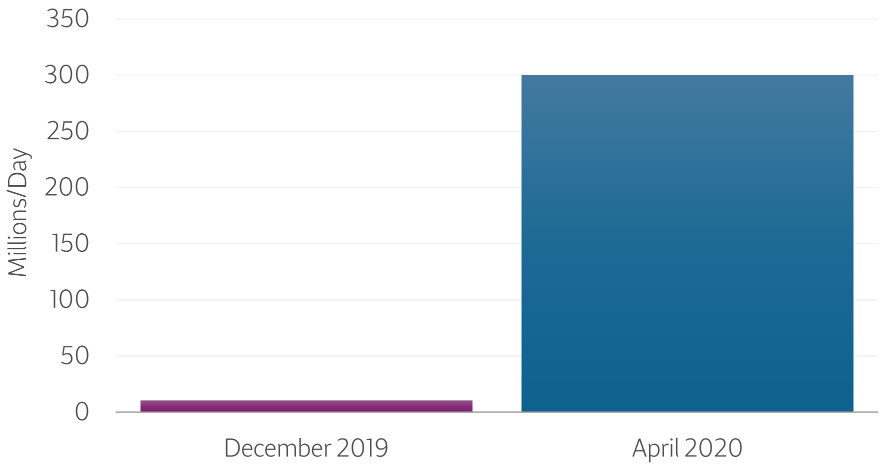
U.S. Business Investment by percentage



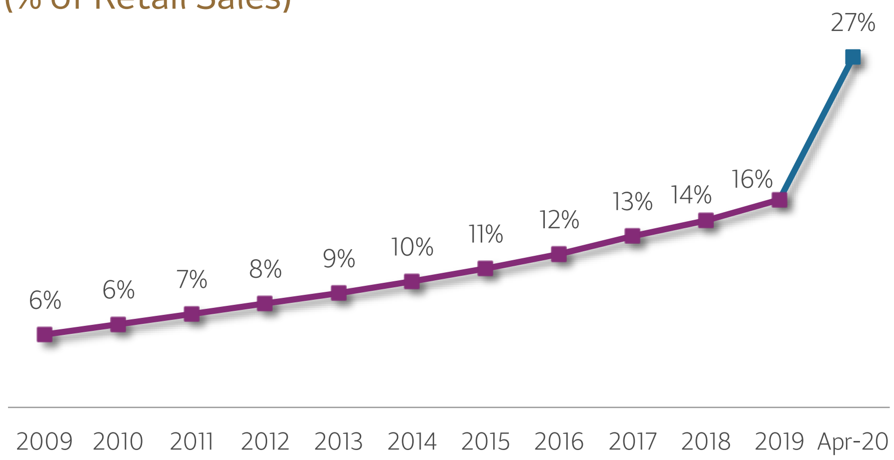
Source: Federal Reserve Economic Data, https://fred.stlouisfed.org/release/tables?rid=53&eid=8128&od=# , as of 8/27/2020

COVID-19 is accelerating the *Right Side of Change*

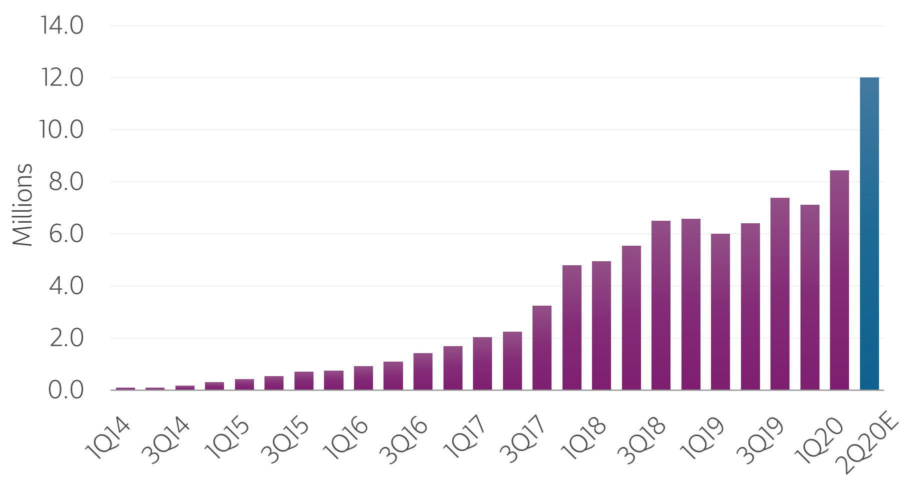
Zoom Daily Meeting Participants



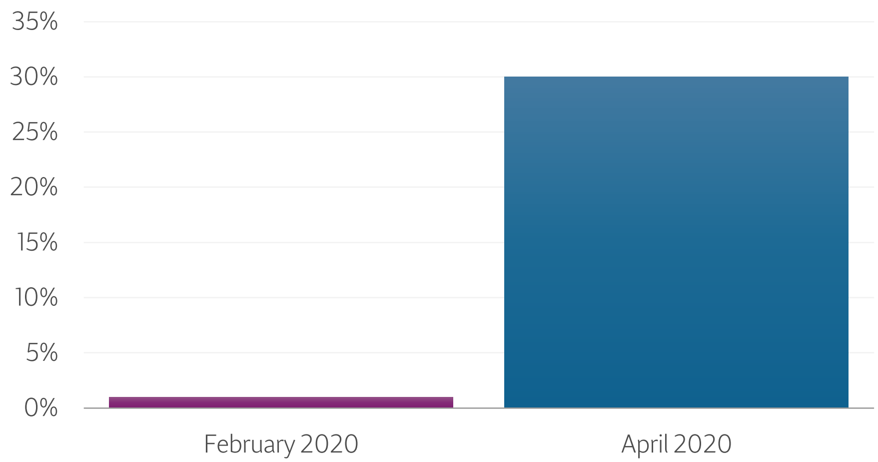
U.S. Ecommerce Penetration (% of Retail Sales)



Square Cash App Downloads



Telehealth as a % of U.S. Doctor Visits

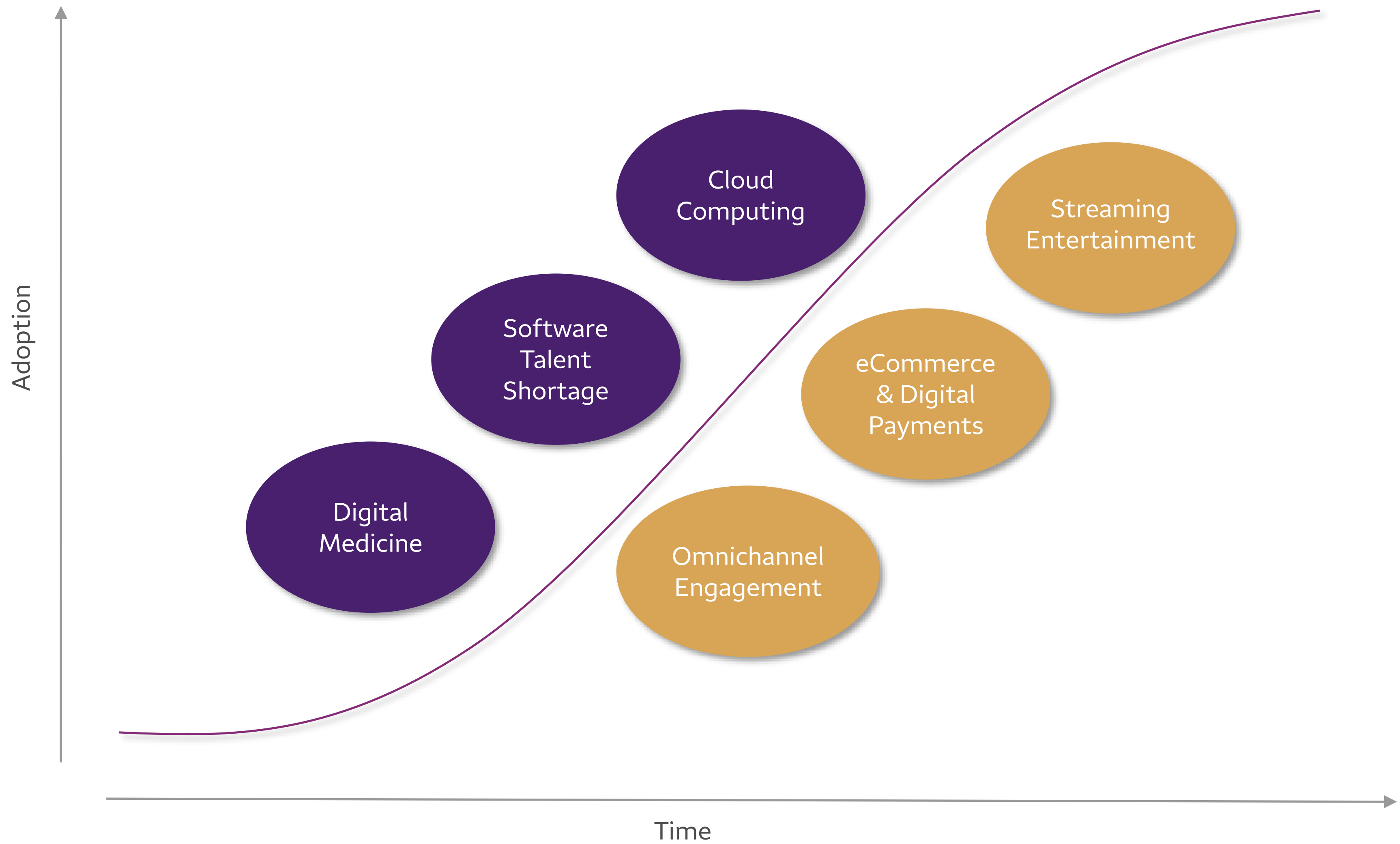


Source: Zoom company filings, Bank of America, U.S. Department of Commerce, ShawSpring Research, Sensor Tower, Credit Suisse research, Veeva Systems company filings. As of April 2020. . This information shall not be considered a recommendation to buy or sell any security.

Investment themes

Investment themes on the S-curve of change

We focus on investment themes showing an impact today with sustainable growth into the future



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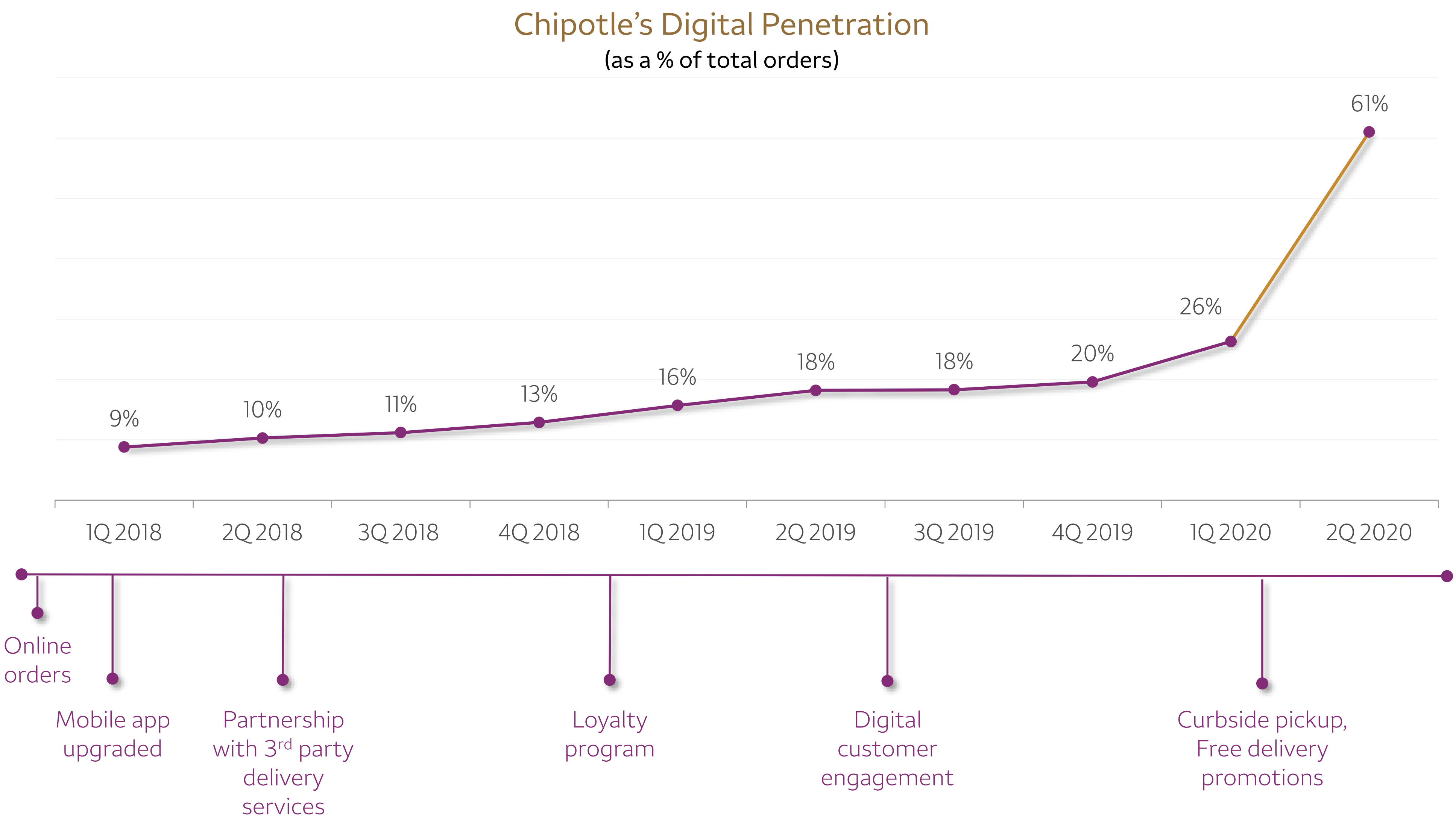
The Impact of Digital Transformation

Chipotle's (CMG) early adoption of digital tools benefitted the company during COVID

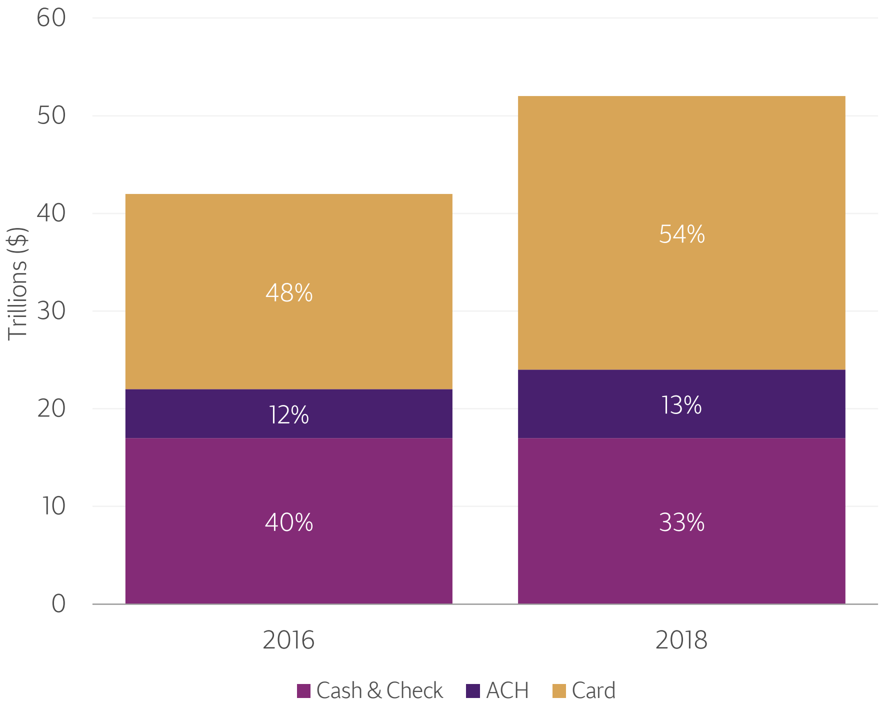


Source: Chipotle Mexican Grill company reports, as of June 30, 2020

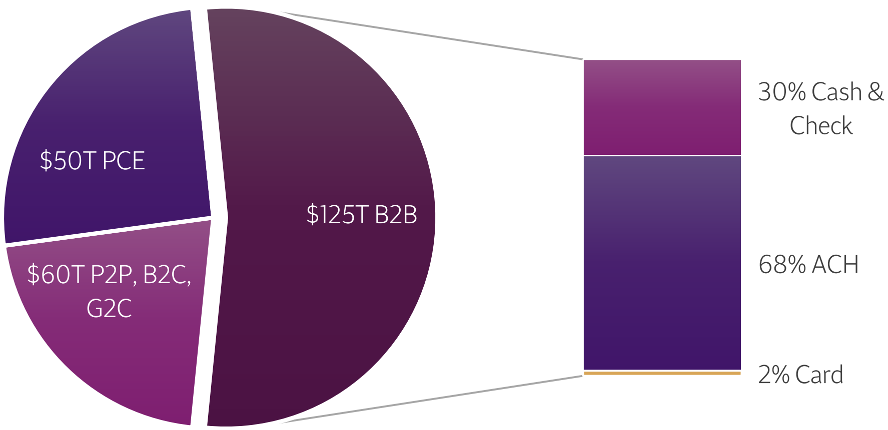
Theme: eCommerce & Digital Payments

Just over half of all personal consumption is conducted via card transactions while less than 2% of business payments are conducted digitally

Personal Consumption is shifting to digital



Business to business payment volume is 2.5x the size of PCE and earlier in the shift to digital



Source: Mastercard company reports, September 2019.

Digital Payments Example: Square

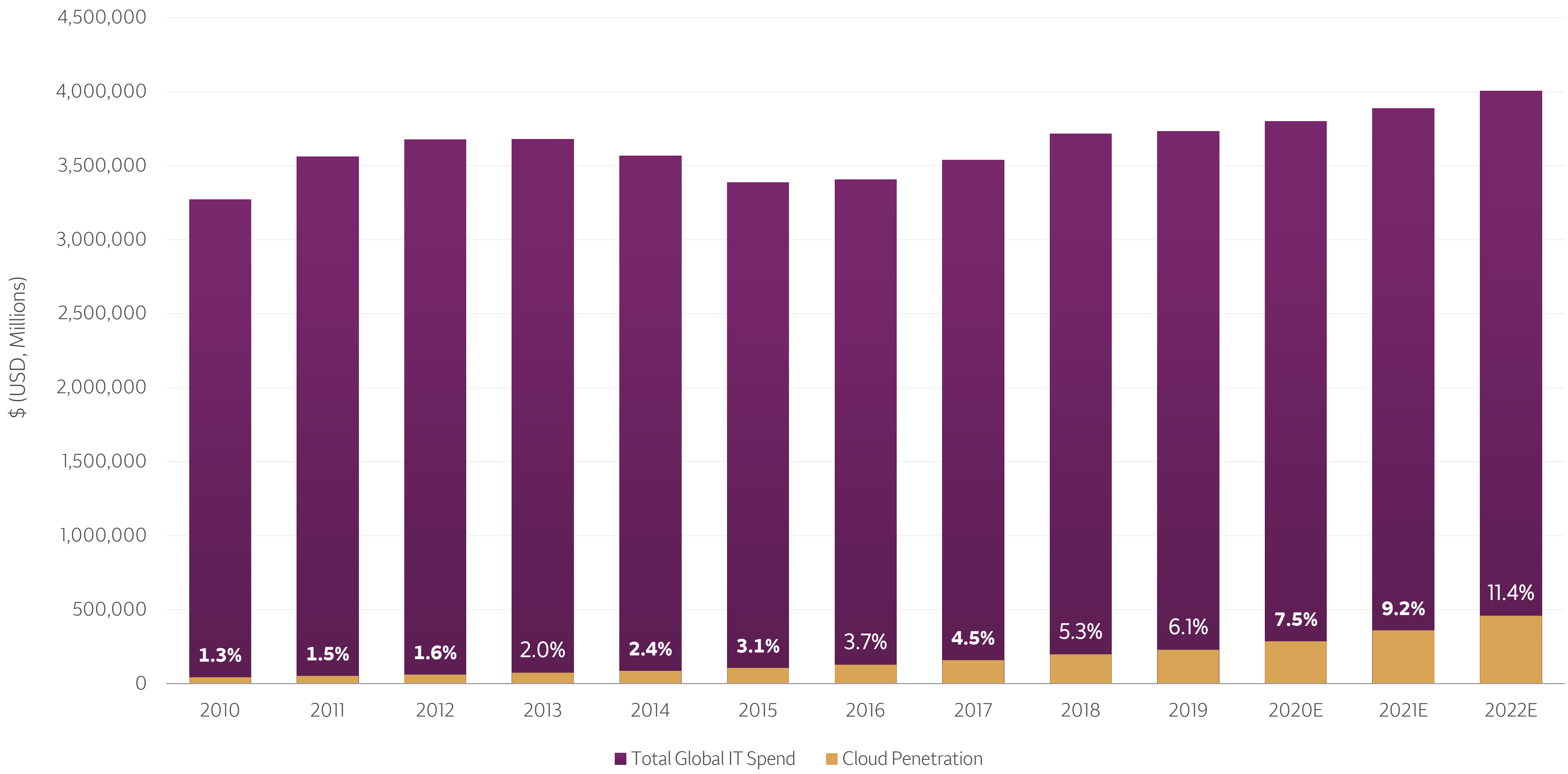
The impact of innovation is spreading throughout economies. Every industry is facing digital disruption. The COVID-19 pandemic is accelerating adoption of new technologies and pulling forward years of digital transformation. Are you invested on the *Right Side of Change*?

Square	
Background	• Card payment volume represents 50% and growing portion of U.S. PCE • Payments integrated with cloud point of sale software represent 10% of U.S. card volume and are growing 2-3x faster than the market • Square was the first company to enable small businesses to accept credit cards in an economical way and led the way developing integrated cloud point of sale software
Right Side of Change	• Today Square processes $100B+ of payment volume, representing 1.4% of U.S. card volume • Square is gaining market share by offering sellers an ecosystem of solutions including payments, cloud software (such as invoicing, payroll, and loyalty), and financial services (such as Square Capital loans) • Square expanded into the digital wallet space with Cash App that is now used by 24M+ consumers • Cash App enables P2P payments and the functionality of checking and brokerage accounts without the friction of traditional financial services • Square has an opportunity to create its own closed loop payment system by connecting its Seller and Cash App ecosystems
Edge	• We believe the market is not correctly pricing in the long-term growth potential of each ecosystem • In 2020, we believe investors overreacted to declining transaction volumes during the COVID-19 pandemic, which made for a favorable risk/reward skew
Theme	• Digital Payments
Portfolio Construction	• Developing Situation

Sources: Wells Fargo Asset Management, Mastercard and Square company reports. This information shall not be considered a recommendation to buy or sell any security.

Theme: Cloud Computing

Cloud spending is on pace to double over the next three years



Source: Gartner Inc. Estimated data is not a promise or guarantee of future results.
AS of September 2019

Cloud Computing Example: ServiceNow

The impact of innovation is spreading throughout economies. Every industry is facing digital disruption. The COVID-19 pandemic is accelerating adoption of new technologies and pulling forward years of digital transformation. Are you invested on the *Right Side of Change*?

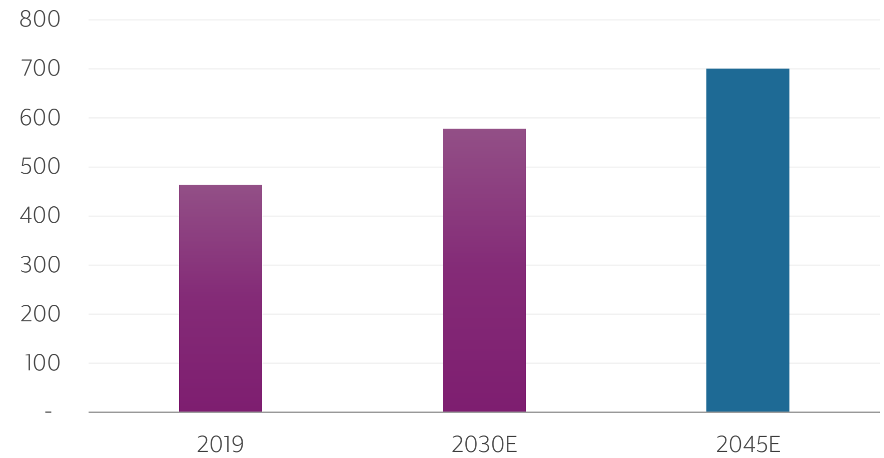
ServiceNow	
Background	• Total cloud computing penetration remains in the mid single digits of overall IT spend globally • ServiceNow operates in a market with $110B of addressable spend growing at an 8% CAGR through 2023 with current revenue of $4B • The company has nearly 1000 customers paying them >$1M annually for their products, this cohort has doubled in the last two years
Right Side of Change	• ServiceNow provides software in the cloud to manage IT, employee and customer workflows such as employee onboarding, IT asset tracking and field service management • The company aims to be the 'platform of platforms' connecting enterprise workflows between a web of legacy on premise applications with next generation cloud platforms like Salesforce.com, Workday, and Amazon Web Services • There are 3M daily active users with 20B workflow transactions per month on the platform
Edge	• The market is mispricing the company's ability to grow its existing product portfolio to gain a greater wallet share of total technology spend within an enterprise
Theme	• Cloud Computing
Portfolio Construction	• Developing Situation

Sources: Wells Fargo Asset Management, Gartner and ServiceNow company filings. This information shall not be considered a recommendation to buy or sell any security.

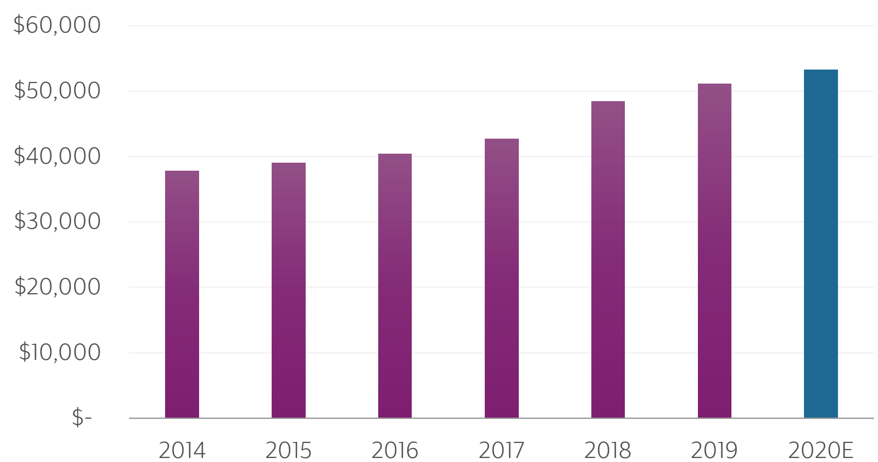
Theme: Digital Medicine Theme

- Diabetes is a growing global healthcare crisis that continues to be underdiagnosed and treated with outdated and expensive therapies
- With proper tools and diagnosis, diabetes can be managed to improve patient outcomes and reduce the financial burden
- If managed properly with tools like continuous glucose monitoring (CGM), patients and doctors can improve outcomes and reduce complications such as heart disease, stroke, and neuropathy

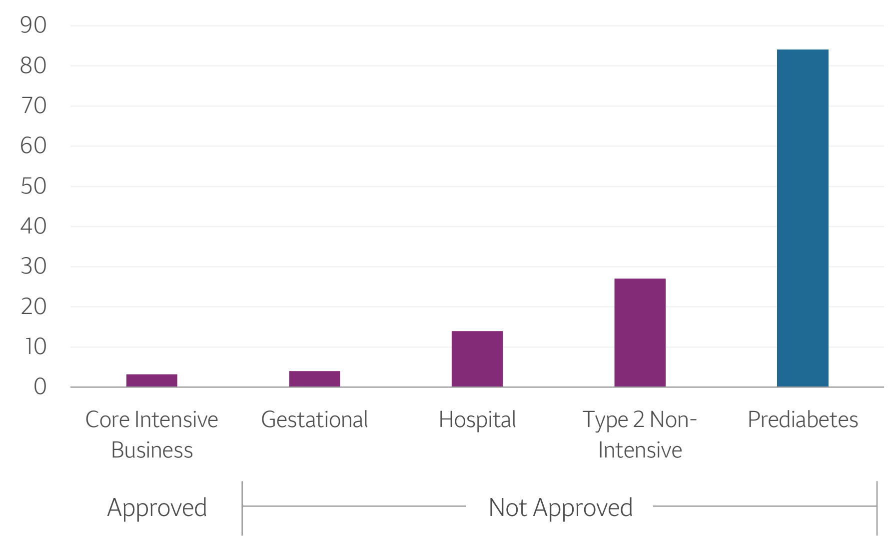
Worldwide Diabetes Patients



Global Spend on Diabetes Medicine ($M)



Total US Market Size (Millions of People)



Source: DexCom company filings and American Association of Diabetes. Estimated data is not a promise or guarantee of future results.
Dexcom company filings Q1 2020; American Association of Diabetes December 2018.

Digital Medicine Example: DexCom

The impact of innovation is spreading throughout economies. Every industry is facing digital disruption. The COVID-19 pandemic is accelerating adoption of new technologies and pulling forward years of digital transformation. Are you invested on the *Right Side of Change*?

	DexCom
Background	• In 2019, approximately 463 million adults (20-79 years) were living with diabetes; by 2045 this will rise to 700 million • 1 in 2 (232 million) people with diabetes were undiagnosed • More than 20 million live births (1 in 6 live births) are affected by diabetes during pregnancy • Diabetes caused at least USD 760 billion dollars in health expenditure in 2019 – 10% of total spending on adults
Right Side of Change	• DexCom Inc. is bringing digital technology to the treatment of diabetes • Using wearable sensors and software, DexCom built a continuous glucose monitoring solution • Patients can track blood sugar levels in a less invasive way than the standard finger prick method • Relative to competing devices, DexCom's monitors provide a more accurate reading as they continuously check blood sugar levels instead of on intermittent schedules • COVID-19 has increased the demand for contactless remote monitoring and treatment
Edge	• DexCom is currently treating less than 500,000 patients within an enormous global TAM • Market penetration and annual revenue per patient are consistently exceeding expectations • Treatment of type 2 diabetes will unlock a new global opportunity
Theme	• Digital Medicine
Portfolio Construction	• Developing Situation

Sources: Wells Fargo Asset Management Bloomberg and FactSet, International Diabetes Federation. This information shall not be considered a recommendation to buy or sell any security.

Disclosure

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