

WELLS FARGO MULTI-SECTOR INCOME FUND

Form N-CSR

December 29, 2015

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21507

Wells Fargo Multi-Sector Income Fund

(Exact name of registrant as specified in charter)

525 Market St., San Francisco, CA 94105

(Address of principal executive offices) (Zip code)

C. David Messman

Wells Fargo Funds Management, LLC

525 Market St., San Francisco, CA 94105

(Name and address of agent for service)

Registrant's telephone number, including area code: 800-222-8222

Date of fiscal year end: October 31

Date of reporting period: October 31, 2015

Table of Contents

ITEM 1. REPORT TO STOCKHOLDERS

2

Table of Contents

Annual Report

October 31, 2015

Wells Fargo Multi-Sector Income Fund (ERC)

Table of Contents*Reduce clutter. Save trees.*Sign up for electronic delivery of prospectuses and shareholder reports at wellsfargo.com/advantagedelivery

Contents

<u>Letter to shareholders</u>	2
<u>Performance highlights</u>	4
<u>Summary portfolio of investments*</u>	7
Financial statements	
<u>Statement of assets and liabilities</u>	19
<u>Statement of operations</u>	20
<u>Statement of changes in net assets</u>	21
<u>Statement of cash flows</u>	22
<u>Financial highlights</u>	23
<u>Notes to financial statements</u>	24
<u>Report of independent registered public accounting firm</u>	31
<u>Other information</u>	32
<u>Automatic dividend reinvestment plan</u>	38
<u>List of abbreviations</u>	39

*A complete schedule of portfolio holdings as of the report date may be obtained, free of charge, by accessing the following website: <https://www.wellsfargofunds.com/assets/edocs/regulatory/holdings/multi-sector-income-ann.pdf> or by calling *Wells Fargo Funds* at **1-800-222-8222**. This complete schedule, filed on Form N-CSR, is also available on the SEC's website at sec.gov.

The views expressed and any forward-looking statements are as of October 31, 2015, unless otherwise noted, and are those of the Fund managers and/or Wells Fargo Funds Management, LLC. Discussions of individual securities, or the markets generally, or any Wells Fargo Fund are not intended as individual recommendations. Future events or results may vary significantly from those expressed in any forward-looking statements. The views expressed are subject to change at any time in response to changing circumstances in the market. Wells Fargo Funds Management, LLC and the Fund disclaim any obligation to publicly update or revise any views expressed or forward-looking statements.

NOT FDIC INSURED ; NO BANK GUARANTEE ; MAY LOSE VALUE

Table of Contents

2 Wells Fargo Multi-Sector Income Fund

Letter to shareholders (unaudited)

Karla M. Rabusch

President

Wells Fargo Funds

Major central banks continued to inject liquidity into global banks and markets through various accommodative monetary policies, including quantitative easing.

Dear Valued Shareholder:

We are pleased to offer you this annual report for the *Wells Fargo Multi-Sector Income Fund* for the 12-month period that ended October 31, 2015. The period was marked by low interest rates; sustained weakness in commodity prices; and concerns about slowing growth in China, which in turn hurt other emerging markets and their currencies.

Major central banks continued to provide stimulus.

Major central banks continued to inject liquidity into global banks and markets through various accommodative monetary policies, including quantitative easing. In the U.S., the Federal Reserve (Fed) kept its key interest rate near zero in order to support the economy and the financial system. It set expectations for it to begin normalizing monetary policy with higher target ranges for the federal funds rate by the end of 2015 but also emphasized that any action would be slow and cautious. In anticipation of Fed action, the U.S. dollar has been an outperformer. Meanwhile, European markets continued to benefit from the European Central Bank's (ECB's) willingness to maintain low interest rates. The ECB held its key rate at a historic low of 0.05%. In addition to its targeted longer-term refinancing operations that are designed to increase bank lending, the ECB expanded its quantitative easing program to include the buying of eurozone government bonds. In Japan, the Bank of Japan maintained an aggressive monetary program aimed at combating deflation.

Global economic growth was below trend, and oil prices plummeted.

Developed countries experienced modest growth and subdued inflation, with commodity prices trending even lower over the course of the year. In the U.S., however, economic growth advanced during the reporting period, the unemployment rate ticked lower to 5.0% as of October 2015, and inflation remained below the Fed's longer-run

objective of a 2% pace. The period was also marked by dramatically lower oil prices, which fell from more than \$80 per barrel at the beginning of the reporting period to less than \$50 per barrel at the end of October 2015. While lower oil prices benefited consumers of oil products, the lower prices pressured companies within the energy sector.

U.S. Treasuries rallied while high-yield and emerging markets sectors faced challenges.

Ten-year U.S. Treasury rates declined during the period, from 2.35% at the end of October 2014 to 2.16% by the end of October 2015, benefiting from safe-haven status as well as relative attractiveness to global investors due to its higher yields than were available in other developed countries. Investment-grade corporate bonds returned 0.90% during the 12-month reporting period, according to the Barclays Credit Index.¹ In contrast, high-yield bonds returned -1.94%, as measured by the Barclays U.S. Corporate High Yield Bond Index,² dragged down by the energy and mining-related sectors that were negatively affected by lower oil prices. Investor trepidation about weak global growth caused both investment-grade spreads and high-yield spreads to widen over the reporting period.

¹ The Barclays U.S. Credit Index measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is comprised of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supnationals and local authorities. The U.S. Credit Index was called the U.S. Corporate Index until July 2000, when it was renamed to reflect its inclusion of both corporate and non-corporate issuers. The U.S. Credit Index is a subset of the U.S. Government/Credit Index and the U.S. Aggregate Index. You cannot invest directly in an index.

² The Barclays U.S. Corporate High Yield Bond Index is an unmanaged, U.S. dollar-denominated, nonconvertible, non-investment-grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of \$150 million. You cannot invest directly in an index.

Table of Contents

Letter to shareholders (unaudited) Wells Fargo Multi-Sector Income Fund 3

The U.S. dollar was one of the top-performing currencies, particularly compared with commodity currencies, such as the Australian dollar, Brazilian real, Russian ruble, and South African rand. The health and prospects of the Chinese economy remained a topic of investor interest. Chinese officials continued their efforts to rebalance the economy away from net exports and toward domestic consumption. The renminbi was devalued modestly in August 2015.

Since the end of the financial crisis, structural changes in the fixed-income markets have reduced trading liquidity (the degree to which assets can be bought or sold without affecting the price). New regulations and capital requirements have caused traditional liquidity suppliers (banks and broker/dealers) to be more risk averse and hold less inventory. Meanwhile, corporate-debt issuance has spiked as companies finance themselves at record-low yields, bond mutual funds hold larger amounts of this new debt supply, trading volumes are lower, and large-size trades are more difficult to execute. However, fixed-income markets appear to have functioned well over the past year with sufficient liquidity and muted volatility.

Don't let short-term uncertainty derail long-term investment goals.

Periods of uncertainty can present challenges, but experience has taught us that maintaining long-term investment goals can be an effective way to plan for the future. Although diversification cannot guarantee an investment profit or prevent losses, we believe it can be an effective way to manage investment risk and potentially smooth out overall portfolio performance. We encourage investors to know their investments and to understand that appropriate levels of risk-taking may unlock opportunities.

Thank you for choosing to invest with *Wells Fargo Funds*. We appreciate your confidence in us and remain committed to helping you meet your financial needs.

Sincerely,

Karla M. Rabusch

President

Wells Fargo Funds

Periods of uncertainty can present challenges, but experience has taught us that maintaining long-term investment goals can be an effective way to plan for the future.

Notice to shareholders

At a meeting held August 11-12, 2015, the Board of Trustees of the Fund approved a change in the name of the Fund whereby the word "Advantage" was removed from its name, effective December 15, 2015.

Notice to shareholders

On December 17, 2015, the Fund announced an open-market share repurchase program (the "Buyback Program"). Under the Buyback Program, the Fund may repurchase up to 10% of its outstanding shares within one year of December 17, 2015. The Fund's Board of Trustees has delegated to Wells Fargo Funds Management, LLC, the Fund's adviser, full discretion to administer the Buyback Program including the determination of the amount and timing of repurchases in accordance with the best interests of the Fund and subject to applicable legal limitations.

For current information about your fund investments, contact your investment professional, visit our website at wellsfargofunds.com, or call us directly at **1-800-222-8222**. We are available 24 hours a day, 7 days a week.

Table of Contents

4 Wells Fargo Multi-Sector Income Fund **Performance highlights (unaudited)**
Investment objective

The Fund seeks a high level of current income consistent with limiting its overall exposure to domestic interest rate risk.

Adviser

Wells Fargo Funds Management, LLC

Subadvisers

First International Advisors, LLC

Wells Capital Management Incorporated

Portfolio managers

Ashok Bhatia, CFA

Christopher Y. Kauffman, CFA

Michael Lee

Niklas Nordenfelt, CFA

Tony Norris

Alex Perrin

Phillip Susser

Christopher Wightman

Peter Wilson

Noah Wise

Average annual total returns (%) as of October 31, 2015¹

	1 Year	5 Year	10 Year
Based on market value	(7.34)	2.25	5.28
Based on net asset value (NAV)	(4.40)	4.89	7.05

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes that a shareholder may pay on fund distributions or the sales of fund shares. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted, which assumes the reinvestment of dividends and capital gains. Performance figures of the Fund do not reflect brokerage commissions that a shareholder would pay on the purchase and sale of shares. If taxes and such brokerage commissions had been reflected, performance would have been lower. To obtain performance information current to the most recent month-end, please call 1-800-222-8222.

The Fund's expense ratio for the year ended October 31, 2015 was 1.24% which includes 0.24% of interest expense.

Comparison of NAV vs. market value²

The Fund is leveraged through a revolving credit facility and also may incur leverage by issuing preferred shares in the future. The use of leverage results in certain risks including, among others, the likelihood of greater volatility of net asset value and the market value of common shares. Foreign investments are especially volatile and can rise or fall dramatically due to differences in the political and economic conditions of the host country. These risks are generally intensified in emerging markets. Derivatives involve additional risks including interest rate risk, credit risk, the risk of improper valuation, and the risk of non-correlation to the relevant instruments that they are designed to hedge or to closely track. Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds held by the Fund. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and their impact on the Fund and its share price can be sudden and unpredictable. High-yield securities have a greater risk of default and tend to be more volatile than higher-rated debt securities. The Fund is exposed to mortgage- and asset-backed securities risk. This closed-end fund is no longer offered as an initial public offering and is only offered through broker/dealers on the secondary market. A closed-end fund is not required to buy its shares back from investors upon request.

¹Total returns based on market value are calculated assuming a purchase of common stock on the first day and sale on the last day of the period reported. Total returns based on NAV are calculated based on the NAV at the beginning of the period and end of the period. Dividends and distributions, if any, are assumed for the purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan.

²This chart does not reflect any brokerage commissions charged on the purchase and sale of the Fund's common stock. Dividends and distributions paid by the Fund are included in the Fund's average annual total returns but have the effect of reducing the Fund's NAV.

Table of Contents

Performance highlights (unaudited)

Wells Fargo Multi-Sector Income Fund 5

MANAGERS DISCUSSION

The Fund's return based on market value was -7.34% during the 12-month period that ended October 31, 2015. During the same period, the Fund's return based on net asset value was -4.40%.

Overview

The Fund contains the following asset classes: mortgage/corporate bonds, high-yield bonds, and international/emerging markets bonds.

During the reporting period, U.S. investment-grade corporate bonds underperformed U.S. Treasuries, with the majority of this underperformance happening in the third quarter of 2015. Securitized sectors, especially commercial and residential mortgage-backed securities (MBS), fared somewhat better. We see opportunities in the credit and securitized sectors given current valuations, and our credit exposure was centered on industrials and financials, particularly banks.

High-yield bond performance was hurt primarily due to the poor performance of the energy and metals and mining sectors as oil prices declined. From a fundamental perspective, leverage levels moved higher over the past several years, although they are not at record highs. In addition, the U.S. Federal Reserve's (Fed's) accommodative monetary policies allowed high-yield companies to take advantage of historically low interest rates to keep their interest costs low.

Within the international portion of the Fund, we favored smaller economies, with overweight allocations to Australian and New Zealand bonds at the expense of Japanese bonds. In the emerging markets portion, the Fund was overweight Mexican, Romanian, and South African bonds but underweight Russian bonds. The U.S. dollar was one of the top-performing currencies during the period, particularly versus commodity currencies, such as the Australian dollar, Brazilian real, Russian ruble, and South African rand. While the Fund was overweight the U.S. dollar for much of the year, we reduced the overweight in recent months.

Ten largest holdings (%) as of October 31, 2015³

Mexico, 4.75%, 6-14-2018	1.98
Sprint Capital Corporation, 6.88%, 11-15-2028	1.92
Poland, 1.50%, 4-25-2020	1.76
Poland, 3.25%, 7-28-2025	1.70
Brazil, 10.00%, 1-1-2017	1.66
Indonesia, 7.88%, 4-15-2019	1.60
Republic of South Africa, 8.00%, 12-21-2018	1.60
Romania, 5.85%, 4-26-2023	1.56
NGPL PipeCo LLC, 7.77%, 12-15-2037	1.42
Dell Incorporated, 4.00%, 4-29-2020	1.40

Contributors to performance

Within the mortgage/corporate portion, securitized holdings generally added value during the period with commercial mortgage-backed securities (CMBS) the largest contributor. Our focus on senior residential MBS also contributed to performance as higher-rated securities outperformed lower-rated ones. Security selection within the electric utility and independent oil and gas industries improved performance in the credit sector, along with an underweight to sovereign issuers.

Within the high-yield portion, the Fund's performance was aided by its lower-than-benchmark exposure to energy exploration and production and metals and mining companies. Security selection within the oil-field services sector benefited results. The Fund was also aided by its exposure to both shorter- and longer-term securities rather than intermediate-term securities.

Within the international portion, currency allocation and duration positioning were the largest sources of outperformance, with country positioning also adding value. Australian and New Zealand bonds contributed to performance versus the benchmark. In the emerging markets portion, overweight allocations to Mexican, Romanian, and South African bonds added to performance. The Fund's shorter-than-benchmark duration also contributed to results.

Detractors from performance

The mortgage/corporate holdings in certain residential MBS and CMBS positions modestly detracted from performance during the period due to security-specific prepayment and ratings changes. Overweight exposures to the metals and mining and oil-field services industries in the credit sectors detracted from returns.

Within the high-yield portion of the Fund, a greater-than-market exposure to oil-field services companies hurt performance. Its underweight to higher-rated credits and overweight to lower-rated credits also detracted from results but was offset by positive security selection within those credit tiers.

³ The ten largest holdings, excluding cash and cash equivalents, are calculated based on the value of the investments divided by total net assets of the Fund. Holdings are subject to change and may have changed since the date specified.

Table of Contents

6 Wells Fargo Multi-Sector Income Fund Performance highlights (unaudited)

Credit quality distribution as of October 31, 2015⁴

Within the international/emerging markets portion, an underweight allocation to Russian fixed-income securities detracted from performance. The cost of currency hedges and issuer selection, such as investments in the mining and commodities trading company Glencore Plc* and Brazilian bank Itau Unibanco Holding SA,* modestly held back results.

Management outlook

We continue to expect moderate U.S. growth and low, stable inflation and believe the Fed's interest-rate policy will be cautious and gradual. Within the mortgage/

corporate portion we therefore expect to focus on the medium-quality credit tiers of A-rated and BBB-rated securities as compelling sources of yield.

With respect to the high-yield market, our base case is that high-yield bonds are relatively stable and may potentially outperform other fixed-income asset classes that may be more affected by a rising-rate environment. In the long run, we expect high yield's relative performance will be primarily driven by corporate fundamentals and defaults. Over a full cycle, we believe the best way to protect against periodic bouts of systemic fears will be our continued focus on a bottom-up approach that attempts to minimize downside risk while capturing the return potential of high-yield issuers.

With global growth likely to remain on the moderate side in 2016, we continue to see value in the smaller economies that offer better yields both nominal and real. Commodity prices appear to be close to finding something of a floor, and many emerging markets (and commodity-linked) currencies could also be close to stabilizing. Currencies such as the Brazilian real and South African rand look cheap on both real equilibrium and nominal exchange-rate measures, having lost significant ground against the U.S. dollar over the past year. While it might be too early to speak of sustained emerging markets currency gains, we believe stability will reduce the need for investors to hedge holdings in these higher-yielding bonds.

Effective maturity distribution as of October 31, 2015⁵

Country allocation as of October 31, 2016⁶

⁴ The credit quality distribution of portfolio holdings reflected in the chart is based on ratings from Standard & Poor's, Moody's Investors Service, and/or Fitch Ratings Ltd. Credit quality ratings apply to the underlying holdings of the Fund and not to the Fund itself. The percentages of the Fund's portfolio with the ratings depicted in the chart are calculated based on the total market value of fixed income securities held by the Fund. If a security was rated by all three rating agencies, the middle rating was utilized. If rated by two of three rating agencies, the lower rating was

utilized, and if rated by one of the rating agencies, that rating was utilized. Standard & Poor's rates the creditworthiness of bonds, ranging from AAA (highest) to D (lowest). Ratings from A to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Standard & Poor's rates the creditworthiness of short-term notes from SP-1 (highest) to SP-3 (lowest). Moody's rates the creditworthiness of bonds, ranging from Aaa (highest) to C (lowest). Ratings Aa to B may be modified by the addition of a number 1 (highest) to 3 (lowest) to show relative standing within the ratings categories. Moody's rates the creditworthiness of short-term U.S. tax-exempt municipal securities from MIG 1/VMIG 1 (highest) to SG (lowest). Fitch rates the creditworthiness of bonds, ranging from AAA (highest) to D (lowest). Credit quality distribution is subject to change and may have changed since the date specified.

⁵ Effective maturity distribution is subject to change and are calculated based on the total long-term investments of the Fund.

⁶ Amounts are calculated based on the total long-term investments of the Fund. These amounts are subject to change and may have changed since the date specified.

*This security was not held in the Fund at the end of the reporting period.

Table of Contents

Summary portfolio of investments October 31, 2015

Wells Fargo Multi-Sector Income Fund 7

The Summary portfolio of investments shows the 50 largest portfolio holdings in unaffiliated issuers and any holdings exceeding 1% of the total net assets as of the report date. The remaining securities held are grouped as Other securities in each category.

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Agency Securities:					
2.54%					
<i>FHLMC</i>	0.60-8.50%	4-25-2020 to 7-25-2048	\$ 20,386,998	\$ 13,448,999	2.31%
<i>Other securities</i>				1,584,132	0.23
Total Agency Securities				15,033,131	2.54
(Cost \$14,069,463)					
Asset-Backed Securities:					
0.15%					
<i>Other securities</i>				891,679	0.15
Total Asset-Backed Securities				891,679	0.15
(Cost \$885,241)					
Common Stocks: 0.08%					
Materials: 0.00%					
Chemicals: 0.00%					
<i>Other securities</i>				836	0.00
Telecommunication Services: 0.08%					

Diversified Telecommunication Services: 0.08%					
<i>Other securities</i>					
				463,604	0.08
Total Common Stocks (Cost \$649,736)					
				464,440	0.08
Corporate Bonds and Notes: 72.75%					
Consumer Discretionary: 12.41%					
Auto Components: 0.55%					
<i>Other securities</i>					
				3,252,555	0.55
Distributors: 0.13%					
<i>Other securities</i>					
				786,000	0.13
Diversified Consumer Services: 1.13%					
<i>Service Corporation International</i>					
	7.00-8.00	6-15-2017 to 11-15-2021	2,565,000	2,855,413	0.49
<i>Service Corporation International</i>					
	7.50	4-1-2027	2,993,000	3,501,810	0.59
<i>Other securities</i>					
				325,313	0.05
				6,682,536	1.13
Hotels, Restaurants & Leisure: 3.01%					
<i>CCM Merger Incorporated 144A</i>					
	9.13	5-1-2019	6,270,000	6,646,200	1.12
<i>Greektown Holdings LLC 144A</i>					
	8.88	3-15-2019	7,625,000	7,739,375	1.31
<i>Other securities</i>					
				3,392,706	0.58
				17,778,281	3.01
Household Durables: 0.41%					
<i>Other securities</i>					
				2,428,856	0.41
Internet & Catalog Retail: 0.14%					
<i>Other securities</i>					
				831,396	0.14

The accompanying notes are an integral part of these financial statements.

Table of Contents

8 Wells Fargo Multi-Sector Income Fund

Summary portfolio of investments October 31, 2015

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Leisure Products: 0.11%					
<i>Other securities</i>				\$ 625,500	0.11%
Media: 5.73%					
<i>CCO Holdings LLC</i>	5.13-7.38%	6-1-2020 to 5-1-2027	\$ 4,605,000	4,712,008	0.79
<i>CCO Holdings LLC 144A</i>	5.38	5-1-2025	4,150,000	4,108,500	0.69
<i>Gray Television Incorporated</i>	7.50	10-1-2020	6,380,000	6,658,806	1.13
<i>Other securities</i>				18,391,737	3.12
				33,871,051	5.73
Multiline Retail: 0.10%					
<i>Other securities</i>				610,831	0.10
Specialty Retail: 1.10%					
<i>Other securities</i>				6,475,851	1.10
Consumer Staples: 0.97%					
Beverages: 0.14%					
<i>Other securities</i>				837,400	0.14
Food & Staples Retailing: 0.10%					
<i>Other securities</i>				613,784	0.10
Food Products: 0.58%					
<i>Other securities</i>				3,426,542	0.58

Household Products:**0.02%**

<i>Other securities</i>				106,625	0.02
-------------------------	--	--	--	---------	------

Tobacco: 0.13%

<i>Other securities</i>				752,380	0.13
-------------------------	--	--	--	---------	------

Energy: 15.64%**Energy Equipment & Services: 5.46%**

<i>Bristow Group Incorporated</i>	6.25		10-15-2022	4,478,000	3,895,860	0.66
<i>Era Group Incorporated</i>	7.75		12-15-2022	4,425,000	4,093,125	0.69
<i>NGPL PipeCo LLC</i>	7.12-9.63		12-15-2017 to 6-1-2019	2,495,000	2,327,450	0.39
<i>NGPL PipeCo LLC 144A</i>	7.77		12-15-2037	10,215,000	8,376,300	1.42
<i>PHI Incorporated</i>	5.25		3-15-2019	5,525,000	4,889,625	0.83
<i>Other securities</i>					8,700,585	1.47
					32,282,945	5.46

Oil, Gas & Consumable Fuels: 10.18%

<i>Rockies Express Pipeline LLC 144A</i>	5.63		4-15-2020	3,625,000	3,665,781	0.62
<i>Rockies Express Pipeline LLC 144A</i>	6.88		4-15-2040	4,038,000	3,856,290	0.65
<i>Rockies Express Pipeline LLC 144A(i)</i>	7.50		7-15-2038	2,350,000	2,279,500	0.39
<i>Sabine Pass Liquefaction LLC</i>	5.63-5.75		2-1-2021 to 5-15-2024	3,495,000	3,400,276	0.57
<i>Sabine Pass Liquefaction LLC</i>	6.25		3-15-2022	3,550,000	3,523,375	0.60

The accompanying notes are an integral part of these financial statements.

Table of Contents

Summary portfolio of investments October 31, 2015

Wells Fargo Multi-Sector Income Fund 9

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Oil, Gas & Consumable Fuels (continued)					
<i>Sabine Pass LNG LP</i>	6.50%	11-1-2020	\$ 4,245,000	\$ 4,276,838	0.72%
<i>Sabine Pass LNG LP</i>	7.50	11-30-2016	4,635,000	4,782,741	0.81
<i>Other securities</i>				34,414,063	5.82
				60,198,864	10.18
Financials: 15.07%					
Banks: 0.89%					
<i>Other securities</i>				5,287,149	0.89
Capital Markets: 1.15%					
<i>Other securities</i>				6,807,759	1.15
Consumer Finance: 4.11%					
<i>Springleaf Finance Corporation</i>	5.40-8.25	12-1-2015 to 10-1-2023	6,230,000	6,430,291	1.08
<i>Springleaf Finance Corporation</i>	6.90	12-15-2017	4,550,000	4,788,875	0.81
<i>Other securities</i>				13,078,974	2.22
				24,298,140	4.11
Diversified Financial Services: 1.87%					
<i>Denali Borrower LLC 144A</i>	5.63	10-15-2020	3,510,000	3,733,763	0.63
<i>Other securities</i>				7,295,367	1.24
				11,029,130	1.87
Insurance: 1.74%					
<i>Other securities</i>				10,254,459	1.74

Real Estate

Management &

Development: 0.54%

<i>Other securities</i>				3,213,013	0.54
-------------------------	--	--	--	-----------	------

REITs: 4.77%

<i>DuPont Fabros Technology</i>					
---------------------------------	--	--	--	--	--

<i>Incorporated LP</i>	5.63	6-15-2023	2,975,000	3,056,813	0.52
------------------------	------	-----------	-----------	-----------	------

<i>DuPont Fabros Technology</i>					
---------------------------------	--	--	--	--	--

<i>Incorporated LP</i>	5.88	9-15-2021	4,655,000	4,887,750	0.83
------------------------	------	-----------	-----------	-----------	------

<i>Iron Mountain Incorporated</i>	5.75	8-15-2024	4,850,000	4,874,250	0.82
-----------------------------------	------	-----------	-----------	-----------	------

<i>Iron Mountain Incorporated</i>	6.00	8-15-2023	2,960,000	3,104,300	0.53
-----------------------------------	------	-----------	-----------	-----------	------

<i>Other securities</i>				12,286,661	2.07
-------------------------	--	--	--	------------	------

				28,209,774	4.77
--	--	--	--	------------	------

Health Care: 5.79%

Biotechnology: 0.13%

<i>Other securities</i>				770,157	0.13
-------------------------	--	--	--	---------	------

Health Care Equipment &

Supplies: 0.50%

<i>Other securities</i>				2,982,313	0.50
-------------------------	--	--	--	-----------	------

The accompanying notes are an integral part of these financial statements.

Table of Contents

10 Wells Fargo Multi-Sector Income Fund

Summary portfolio of investments October 31, 2015

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Health Care Providers & Services: 3.02%					
<i>Select Medical Corporation</i>	6.38%	6-1-2021	\$ 6,215,000	\$ 5,500,275	0.93%
<i>Other securities</i>				12,385,853	2.09
				17,886,128	3.02
Health Care Technology: 0.95%					
<i>Emdeon Incorporated</i>	11.00	12-31-2019	4,325,000	4,606,125	0.78
<i>Other securities</i>				1,018,750	0.17
				5,624,875	0.95
Life Sciences Tools & Services: 0.14%					
<i>Other securities</i>				848,225	0.14
Pharmaceuticals: 1.05%					
<i>Other securities</i>				6,203,456	1.05
Industrials: 4.87%					
Aerospace & Defense: 0.17%					
<i>Other securities</i>				1,011,885	0.17
Airlines: 0.36%					
<i>Other securities</i>				2,142,566	0.36
Commercial Services & Supplies: 1.79%					
<i>Other securities</i>				10,596,092	1.79
Construction & Engineering: 0.83%					

<i>Other securities</i>				4,918,668	0.83
Professional Services: 0.15%					
<i>Other securities</i>				842,791	0.15
Road & Rail: 0.11%					
<i>Other securities</i>				646,620	0.11
Trading Companies & Distributors: 1.46%					
<i>Ashtead Capital Incorporated 144A</i>	6.50	7-15-2022	4,100,000	4,397,250	0.74
<i>H&E Equipment Services Incorporated</i>	7.00	9-1-2022	4,065,000	4,125,975	0.70
<i>Other securities</i>				83,063	0.02
				8,606,288	1.46
Information Technology: 5.80%					
Communications Equipment: 0.30%					
<i>Other securities</i>				1,807,079	0.30
Electronic Equipment, Instruments & Components: 1.24%					
<i>Jabil Circuit Incorporated</i>	8.25	3-15-2018	5,275,000	5,921,188	1.00
<i>Other securities</i>				1,439,783	0.24
				7,360,971	1.24

The accompanying notes are an integral part of these financial statements.

Table of Contents

Summary portfolio of investments October 31, 2015

Wells Fargo Multi-Sector Income Fund 11

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Internet Software & Services: 0.17%					
<i>Other securities</i>				\$ 997,216	0.17%
IT Services: 2.43%					
<i>First Data Corporation</i>	11.75%	8-15-2021	\$ 4,125,000	4,702,500	0.80
<i>Other securities</i>				9,643,824	1.63
				14,346,324	2.43
Semiconductors & Semiconductor Equipment: 0.24%					
<i>Other securities</i>				1,398,809	0.24
Software: 0.57%					
<i>Other securities</i>				3,353,447	0.57
Technology Hardware, Storage & Peripherals: 0.85%					
<i>NCR Corporation</i>	6.38	12-15-2023	3,950,000	4,063,563	0.69
<i>Other securities</i>				979,246	0.16
				5,042,809	0.85
Materials: 1.34%					
Chemicals: 0.13%					
<i>Other securities</i>				792,845	0.13
Containers & Packaging: 1.21%					
<i>Other securities</i>				7,152,823	1.21

Metals & Mining: 0.00%

Other securities 0 0.00

Telecommunication

Services: 8.64%

Diversified

Telecommunication

Services: 3.29%

Syniverse Holdings

Incorporated

9.13

1-15-2019

6,305,000

5,296,200

0.90

Other securities

14,134,978

2.39

19,431,178

3.29

Wireless

Telecommunication

Services: 5.35%

Sprint Capital Corporation

6.88

11-15-2028

13,665,000

11,341,919

1.92

Sprint Capital Corporation

8.75

3-15-2032

2,575,000

2,317,500

0.39

T-Mobile USA Incorporated

6.00-6.84

4-28-2019 to 3-1-2025

4,140,000

4,234,797

0.72

T-Mobile USA Incorporated

6.73

4-28-2022

3,490,000

3,603,425

0.61

Other securities

10,082,186

1.71

31,579,827

5.35

Utilities: 2.22%

Electric Utilities: 0.47%

Other securities

2,797,002

0.47

Gas Utilities: 0.45%

Other securities

2,678,069

0.45

The accompanying notes are an integral part of these financial statements.

Table of Contents

12 Wells Fargo Multi-Sector Income Fund

Summary portfolio of investments October 31, 2015

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Independent Power & Renewable Electricity					
Producers: 1.05%					
<i>Other securities</i>				\$ 6,179,820	1.05%
Multi-Utilities: 0.25%					
<i>Other securities</i>				1,444,319	0.25
Total Corporate Bonds and Notes (Cost \$433,867,984)					
				430,103,423	72.75
Foreign Corporate Bonds and Notes @: 2.57%					
Consumer Discretionary: 0.08%					
Auto Components: 0.02%					
<i>Other securities</i>				115,408	0.02
Distributors: 0.02%					
<i>Other securities</i>				131,742	0.02
Internet & Catalog Retail: 0.04%					
<i>Other securities</i>				221,806	0.04
Consumer Staples: 0.11%					
Food Products: 0.11%					
<i>Other securities</i>				667,177	0.11
Energy: 0.29%					
Energy Equipment & Services: 0.02%					
<i>Other securities</i>				111,593	0.02

Oil, Gas & Consumable Fuels:

0.27%

<i>Other securities</i>				1,602,178	0.27
-------------------------	--	--	--	-----------	------

Financials: 1.63%

Banks: 1.53%

<i>KfW (TRY)</i>	5.00%	1-16-2017	11,400,000	3,664,497	0.62
------------------	-------	-----------	------------	-----------	------

<i>Other securities</i>				5,365,990	0.91
-------------------------	--	--	--	-----------	------

				9,030,487	1.53
--	--	--	--	-----------	------

Diversified Financial Services:

0.10%

<i>Other securities</i>				609,964	0.10
-------------------------	--	--	--	---------	------

Materials: 0.11%

Chemicals: 0.11%

<i>Other securities</i>				636,203	0.11
-------------------------	--	--	--	---------	------

Telecommunication Services: 0.35%

Diversified Telecommunication

Services: 0.06%

<i>Other securities</i>				369,803	0.06
-------------------------	--	--	--	---------	------

The accompanying notes are an integral part of these financial statements.

Table of Contents

Summary portfolio of investments October 31, 2015

Wells Fargo Multi-Sector Income Fund 13

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Wireless Telecommunication Services: 0.29%					
<i>Other securities</i>				\$ 1,721,100	0.29%
Total Foreign Corporate Bonds and Notes (Cost \$20,012,280)				15,217,461	2.57
Foreign Government Bonds @: 23.98%					
<i>Brazil (BRL)</i>	10.00%	1-1-2017	38,525,000	9,445,577	1.60
<i>Brazil (BRL)</i>	10.00	1-1-2025	32,800,000	6,226,484	1.05
<i>Colombia (COP)</i>	7.00	5-4-2022	18,650,000,000	6,294,887	1.06
<i>Colombia (COP)</i>	7.75	4-14-2021	5,250,000,000	1,844,024	0.31
<i>Hungary (HUF)</i>	6.75	11-24-2017	1,305,000,000	5,139,208	0.87
<i>Indonesia (IDR)</i>	7.88	4-15-2019	133,640,000,000	9,491,833	1.61
<i>Indonesia (IDR)</i>	10.00	7-15-2017	50,000,000,000	3,735,854	0.63
<i>Malaysia (MYR)</i>	3.66	10-15-2020	20,700,000	4,804,125	0.81
<i>Malaysia (MYR)</i>	4.18	7-15-2024	19,850,000	4,625,087	0.78
<i>Mexico (MXN)</i>	4.75	6-14-2018	191,800,000	11,701,625	1.98
<i>Mexico (MXN)</i>	6.50	6-10-2021	40,000,000	2,550,960	0.43
<i>Mexico (MXN)</i>	10.00	12-5-2024	76,220,000	5,906,526	1.00
<i>Poland (PLN)</i>	1.50	4-25-2020	41,200,000	10,422,187	1.76
<i>Poland (PLN)</i>	3.25	7-25-2025	37,100,000	10,083,191	1.71
<i>Queensland Treasury (AUD)</i>	5.75	7-22-2024	4,100,000	3,521,807	0.60
<i>Republic of South Africa (ZAR)</i>	7.75	2-28-2023	103,000,000	7,308,765	1.24
<i>Republic of South Africa (ZAR)</i>	8.00	12-21-2018	129,000,000	9,473,889	1.60
<i>Romania (RON)</i>	5.85	4-26-2023	31,550,000	9,212,836	1.56
<i>Thailand (THB)</i>	3.25-3.85	6-16-2017 to 12-12-2025	218,500,000	6,549,758	1.11
<i>Turkey (TRY)</i>	6.30	2-14-2018	7,325,000	2,330,362	0.39
<i>Turkey (TRY)</i>	9.00	3-8-2017	13,600,000	4,604,240	0.78
<i>Other securities</i>				6,502,253	1.10

Total Foreign Government Bonds (Cost \$169,688,653)	141,775,478	23.98
Loans: 17.12%		
Consumer Discretionary: 4.34%		
Auto Components: 0.58%		
<i>Other securities</i>	3,446,009	0.58
Distributors: 0.50%		
<i>Other securities</i>	2,978,759	0.50
Diversified Consumer Services: 0.11%		
<i>Other securities</i>	648,385	0.11
Hotels, Restaurants & Leisure: 0.02%		
<i>Other securities</i>	104,685	0.02
Household Durables: 0.02%		
<i>Other securities</i>	110,362	0.02

The accompanying notes are an integral part of these financial statements.

Table of Contents

14 Wells Fargo Multi-Sector Income Fund

Summary portfolio of investments October 31, 2015

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Household Products: 0.03%					
<i>Other securities</i>				\$ 168,361	0.03%
Leisure Products: 0.33%					
<i>Other securities</i>				1,973,846	0.33
Media: 2.17%					
<i>TWCC Holdings Corporation ±</i>	5.75%	2-11-2020	\$ 386,510	386,544	0.07
<i>TWCC Holdings Corporation ±</i>	7.00	6-26-2020	6,035,000	6,021,783	1.02
<i>Other securities</i>				6,390,796	1.08
				12,799,123	2.17
Multiline Retail: 0.12%					
<i>Other securities</i>				721,298	0.12
Specialty Retail: 0.46%					
<i>Other securities</i>				2,710,116	0.46
Consumer Staples: 0.40%					
Food & Staples Retailing: 0.40%					
<i>Other securities</i>				2,362,201	0.40
Energy: 0.49%					
Oil, Gas & Consumable Fuels: 0.49%					
<i>Other securities</i>				2,919,125	0.49
Financials: 2.79%					
Capital Markets: 0.23%					
<i>Other securities</i>				1,366,481	0.23

Diversified Financial Services:

1.05%

<i>Other securities</i>	6,223,261	1.05
-------------------------	-----------	------

Insurance: 0.10%

<i>Other securities</i>	589,230	0.10
-------------------------	---------	------

Real Estate Management &

Development: 0.83%

<i>Other securities</i>	4,923,655	0.83
-------------------------	-----------	------

REITs: 0.58%

<i>Other securities</i>	3,405,040	0.58
-------------------------	-----------	------

Health Care: 0.74%

Health Care Equipment &

Supplies: 0.15%

<i>Other securities</i>	870,344	0.15
-------------------------	---------	------

Health Care Providers &

Services: 0.37%

<i>Other securities</i>	2,215,690	0.37
-------------------------	-----------	------

The accompanying notes are an integral part of these financial statements.

Table of Contents

Summary portfolio of investments October 31, 2015

Wells Fargo Multi-Sector Income Fund 15

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Health Care Technology: 0.07%					
<i>Other securities</i>				\$ 406,488	0.07%
Pharmaceuticals: 0.15%					
<i>Other securities</i>				871,271	0.15
Industrials: 2.25%					
Aerospace & Defense: 0.51%					
<i>Other securities</i>				2,983,845	0.51
Airlines: 0.01%					
<i>Other securities</i>				86,767	0.01
Chemicals: 0.04%					
<i>Other securities</i>				255,280	0.04
Commercial Services & Supplies: 1.02%					
<i>Other securities</i>				6,037,732	1.02
Electrical Equipment: 0.17%					
<i>Other securities</i>				974,109	0.17
Machinery: 0.09%					
<i>Other securities</i>				537,107	0.09
Transportation Infrastructure: 0.41%					
<i>Other securities</i>				2,402,374	0.41
Information Technology: 3.06%					

Internet Software & Services:**0.43%**

<i>Other securities</i>				2,541,639	0.43
-------------------------	--	--	--	-----------	------

Semiconductors & Semiconductor**Equipment: 0.66%**

<i>Other securities</i>				3,918,262	0.66
-------------------------	--	--	--	-----------	------

Software: 0.17%

<i>Other securities</i>				985,972	0.17
-------------------------	--	--	--	---------	------

Technology Hardware, Storage &**Peripherals: 1.80%**

<i>Dell Incorporated</i> ±	4.00%	4-29-2020	\$ 8,302,653	8,298,004	1.40
----------------------------	-------	-----------	--------------	-----------	------

<i>Other securities</i>				2,358,164	0.40
-------------------------	--	--	--	-----------	------

				10,656,168	1.80
--	--	--	--	------------	------

Telecommunication Services:**1.66%****Diversified Telecommunication****Services: 1.08%**

<i>Other securities</i>				6,404,742	1.08
-------------------------	--	--	--	-----------	------

Wireless Telecommunication**Services: 0.58%**

<i>Syniverse Holdings Incorporated</i> ±	4.00	4-23-2019	1,129,493	1,014,780	0.17
--	------	-----------	-----------	-----------	------

<i>Other securities</i>				2,382,965	0.41
-------------------------	--	--	--	-----------	------

				3,397,745	0.58
--	--	--	--	-----------	------

The accompanying notes are an integral part of these financial statements.

Table of Contents

16 Wells Fargo Multi-Sector Income Fund

Summary portfolio of investments October 31, 2015

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Utilities: 1.39%					
Electric Utilities: 1.30%					
<i>Texas Competitive Electric Holdings Company LLC ±(s)</i>	4.66%	10-10-2016	\$ 20,096,983	\$ 6,422,594	1.08%
<i>Other securities</i>				1,283,450	0.22
				7,706,044	1.30
Independent Power & Renewable Electricity Producers: 0.09%					
<i>Other securities</i>				496,551	0.09
Total Loans (Cost \$115,502,743)				101,198,067	17.12
Municipal Obligations: 0.06%					
New York: 0.06%					
<i>Other securities</i>				342,354	0.06
Total Municipal Obligations (Cost \$345,000)				342,354	0.06
Non-Agency Mortgage-Backed Securities: 7.77%					
<i>Other securities</i>				45,932,700	7.77
Total Non-Agency Mortgage-Backed Securities (Cost \$45,058,459)				45,932,700	7.77
Preferred Stocks: 0.19%					
Financials: 0.19%					

Banks: 0.19%		
<i>Other securities</i>	1,146,852	0.19
Total Preferred Stocks (Cost \$1,130,339)	1,146,852	0.19
Yankee Corporate Bonds and Notes: 8.67%		
Consumer Discretionary: 0.59%		
Diversified Consumer Services: 0.10%		
<i>Other securities</i>	615,333	0.10
Media: 0.49%		
<i>Other securities</i>	2,903,479	0.49
Consumer Staples: 0.47%		
Beverages: 0.34%		
<i>Other securities</i>	2,017,294	0.34
Tobacco: 0.13%		
<i>Other securities</i>	766,271	0.13
Energy: 0.58%		
Energy Equipment & Services: 0.11%		
<i>Other securities</i>	671,438	0.11

The accompanying notes are an integral part of these financial statements.

Table of Contents

Summary portfolio of investments October 31, 2015

Wells Fargo Multi-Sector Income Fund 17

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
Oil, Gas & Consumable Fuels : 0.47%					
<i>Other securities</i>				\$ 2,779,511	0.47%
Financials: 1.53%					
Banks: 1.33%					
<i>Other securities</i>				7,891,209	1.33
Diversified Financial Services: 0.20%					
<i>Other securities</i>				1,167,426	0.20
Health Care: 1.08%					
Pharmaceuticals: 1.08%					
<i>Other securities</i>				6,388,807	1.08
Industrials: 0.49%					
Building Products: 0.04%					
<i>Other securities</i>				219,975	0.04
Commercial Services & Supplies: 0.27%					
<i>Other securities</i>				1,608,469	0.27
Machinery: 0.04%					
<i>Other securities</i>				229,419	0.04
Road & Rail: 0.14%					
<i>Other securities</i>				807,622	0.14

Information Technology:

0.26%

Communications

Equipment: 0.13%

Other securities

778,660 0.13

Internet Software &

Services : 0.13%

Other securities

773,987 0.13

Materials: 1.25%

Containers & Packaging:

0.40%

Other securities

2,375,106 0.40

Metals & Mining: 0.60%

Other securities

3,521,838 0.60

Paper & Forest Products:

0.25%

Other securities

1,450,800 0.25

Telecommunication

Services: 2.30%

Diversified

Telecommunication

Services: 2.04%

Intelsat Jackson Holdings

SA	5.50%	8-1-2023	\$ 6,775,000	5,623,250	0.95
----	-------	----------	--------------	-----------	------

<i>Intelsat Jackson Holdings</i>					
SA	7.25-7.50	10-15-2020 to 4-1-2021	1,675,000	1,516,563	0.26

<i>Other securities</i>				4,944,669	0.83
-------------------------	--	--	--	-----------	------

				12,084,482	2.04
--	--	--	--	------------	------

The accompanying notes are an integral part of these financial statements.

Table of Contents

18 Wells Fargo Multi-Sector Income Fund

Summary portfolio of investments October 31, 2015

Security name	Value	Percent of net assets
Wireless Telecommunication Services: 0.26%		
<i>Other securities</i>	\$ 1,532,875	0.26%
Utilities: 0.12%		
Electric Utilities: 0.12%		
<i>Other securities</i>	681,688	0.12
Total Yankee Corporate Bonds and Notes (Cost \$56,757,742)	51,265,689	8.67
	Yield	Shares
Short-Term Investments: 2.47%		
Investment Companies: 2.47%		
<i>Wells Fargo Cash Investment Money Market Fund, Select Class (l)(u)##</i>	0.16%	14,571,777
	14,571,777	2.47
Total Short-Term Investments (Cost \$14,571,777)	14,571,777	2.47
Total investments in securities (Cost \$872,539,417) *	817,943,051	138.35
<i>Other assets and liabilities, net</i>	(226,717,263)	(38.35)
Total net assets	\$ 591,225,788	100.00%

144A The security may be resold in transactions exempt from registration, normally to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933.

@ Foreign bond principal is denominated in the local currency of the issuer.

- ± Variable rate investment. The rate shown is the rate in effect at period end.
- (i) Illiquid security for which the designation as illiquid is unaudited.
- (s) The security is currently in default with regards to scheduled interest and/or principal payments. The Fund has stopped accruing interest on the security.
- (l) The issuer of the security is an affiliated person of the Fund as defined in the Investment Company Act of 1940.
- (u) The rate represents the 7-day annualized yield at period end.
- ## All or a portion of this security is segregated for when-issued securities and unfunded loans.
- * Cost for federal income tax purposes is \$877,787,209 and unrealized gains (losses) consists of:

Gross unrealized gains	\$ 18,064,530
Gross unrealized losses	(77,908,688)
Net unrealized losses	\$ (59,844,158)

The accompanying notes are an integral part of these financial statements.

Table of Contents

Statement of assets and liabilities October 31, 2015 Wells Fargo Multi-Sector Income Fund 19

Assets**Investments**

In unaffiliated securities, at value (cost \$857,967,640)	\$ 803,371,274
In affiliated securities, at value (cost \$14,571,777)	14,571,777

Total investments, at value (cost \$872,539,417)	817,943,051
--	-------------

Cash	8,191
------	-------

Foreign currency, at value (cost \$974,126)	971,431
---	---------

Receivable for investments sold	4,883,808
---------------------------------	-----------

Principal paydown receivable	7,192
------------------------------	-------

Receivable for interest	13,082,247
-------------------------	------------

Unrealized gains on forward foreign currency contracts	196,852
--	---------

Prepaid expenses and other assets	15,691
-----------------------------------	--------

Total assets	837,108,463
--------------	-------------

Liabilities

Dividends payable	4,066,719
-------------------	-----------

Payable for investments purchased	9,939,924
-----------------------------------	-----------

Unrealized losses on forward foreign currency contracts	1,121,532
---	-----------

Secured borrowing payable	230,143,090
---------------------------	-------------

Advisory fee payable	395,260
----------------------	---------

Administration fee payable	35,933
----------------------------	--------

Accrued expenses and other liabilities	180,217
--	---------

Total liabilities	245,882,675
-------------------	-------------

Total net assets	\$ 591,225,788
-------------------------	-----------------------

NET ASSETS CONSIST OF

Paid-in capital	\$ 749,374,610
-----------------	----------------

Overdistributed net investment income	(4,610,988)
---------------------------------------	-------------

Accumulated net realized losses on investments	(97,889,862)
--	--------------

Net unrealized losses on investments	(55,647,972)
--------------------------------------	--------------

Total net assets	\$ 591,225,788
-------------------------	-----------------------

NET ASSET VALUE PER SHARE

Based on \$591,225,788 divided by 42,055,000 shares issued and outstanding (100,000,000 shares authorized)	\$14.06
--	---------

The accompanying notes are an integral part of these financial statements.

Table of Contents

20 Wells Fargo Multi-Sector Income Fund Statement of operations year ended October 31, 2015

Investment income

Interest (net of foreign withholding taxes of \$173,164)	\$ 54,248,776
Dividends	90,214
Income from affiliated securities	16,904
Total investment income	54,355,894

Expenses

Advisory fee	4,746,390
Administration fee	431,490
Custody and accounting fees	228,145
Professional fees	122,042
Shareholder report expenses	91,545
Trustees' fees and expenses	17,921
Transfer agent fees	35,946
Interest expense	1,530,078
Secured borrowing fees	634,892
Other fees and expenses	47,630
Total expenses	7,886,079

Net investment income 46,469,815

REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS**Net realized gains (losses) on:**

Unaffiliated securities	(18,961,924)
Forward foreign currency contract transactions	2,973,435

Net realized losses on investments (15,988,489)

Net change in unrealized gains (losses) on:

Unaffiliated securities	(66,813,483)
Forward foreign currency contract transactions	(507,037)

Net change in unrealized gains (losses) on investments (67,320,520)

Net realized and unrealized gains (losses) on investments (83,309,009)

Net decrease in net assets resulting from operations \$ (36,839,194)

The accompanying notes are an integral part of these financial statements.

Table of Contents

Statement of changes in net assets	Wells Fargo Multi-Sector Income Fund 21	
	Year ended	Year ended
	October 31, 2015	October 31, 2014
Operations		
Net investment income	\$ 46,469,815	\$ 47,904,280
Net realized losses on investments	(15,988,489)	(10,992,976)
Net change in unrealized gains (losses) on investments	(67,320,520)	985,722
Net increase (decrease) in net assets resulting from operations	(36,839,194)	37,897,026
Distributions to shareholders from		
Net investment income	(36,559,777)	(38,167,582)
Tax basis return of capital	(12,379,627)	(12,298,418)
Total distributions to shareholders	(48,939,404)	(50,466,000)
Total decrease in net assets	(85,778,598)	(12,568,974)
Net assets		
Beginning of period	677,004,386	689,573,360
End of period	\$ 591,225,788	\$ 677,004,386
Overdistributed net investment income	\$ (4,610,988)	\$ (4,088,672)

The accompanying notes are an integral part of these financial statements.

Table of Contents

22 Wells Fargo Multi-Sector Income Fund

Statement of cash flows year ended October 31, 2015

Cash flows from operating activities:

Net decrease in net assets resulting from operations \$ (36,839,194)

Adjustments to reconcile net decrease in net assets from operations to net cash provided by operating activities:

Purchases of investment securities (355,656,431)

Proceeds from the sales of investment securities 342,289,005

Paydowns 3,686,549

Amortization (943,650)

Proceeds from sales of short-term investment securities, net 8,910,722

Increase in receivable for investments sold (1,946,413)

Decrease in principal paydown receivable 4,248

Decrease in receivable for dividends and interest 202,121

Decrease in prepaid expenses and other assets 10,776

Increase in payable for investments purchased 5,878,313

Decrease in advisory fee payable (15,881)

Decrease in administration fee payable (1,443)

Decrease in accrued expenses and other liabilities (73,881)

Litigation payments received 121,256

Net realized losses on investments 15,988,489

Net change in unrealized gains (losses) on investments 67,320,520

Net cash provided by operating activities 48,935,106

Cash flows from financing activities:

Cash distributions paid (49,078,186)

Decrease in secured borrowing payable (220,389)

Net cash used in financing activities (49,298,575)

Net decrease in cash (363,469)

Cash (including foreign currency):

Beginning of period \$ 1,343,091

End of period \$ 979,622

Supplemental cash disclosure

Cash paid for interest \$ 1,750,467

The accompanying notes are an integral part of these financial statements.

Table of Contents

Financial highlights

Wells Fargo Multi-Sector Income Fund 23

(For a share outstanding throughout each period)

	Year ended October 31				
	2015	2014	2013	2012	2011
Net asset value, beginning of period	\$16.10	\$16.40	\$17.01	\$16.16	\$16.67
Net investment income	1.10 ¹	1.14 ¹	1.18	1.16	1.11
Net realized and unrealized gains (losses) on investments	(1.98)	(0.24)	(0.59)	0.89	(0.39)
Total from investment operations	(0.88)	0.90	0.59	2.05	0.72
Distributions to shareholders from					
Net investment income	(0.87)	(0.91)	(1.20)	(1.20)	(1.23)
Tax basis return of capital	(0.29)	(0.29)	0.00	0.00	0.00
Total distributions to shareholders	(1.16)	(1.20)	(1.20)	(1.20)	(1.23)
Net asset value, end of period	\$14.06	\$16.10	\$16.40	\$17.01	\$16.16
Market value, end of period	\$12.02	\$14.19	\$14.47	\$16.54	\$14.97
Total return based on market value ²	(7.34)%	6.55%	(5.44)%	19.33%	0.33%
Ratios to average net assets (annualized)					
Gross expenses ³	1.24%	1.21%	1.24%	1.24%	1.14%
Net expenses ³	1.24%	1.21%	1.24%	1.24%	1.14%
Net investment income ³	7.33%	6.95%	7.04%	7.13%	6.75%
Supplemental data					
Portfolio turnover rate	31%	41%	40%	78%	35%
Net assets, end of period (000s omitted)	\$591,226	\$677,004	\$689,573	\$715,368	\$679,497
Borrowings outstanding, end of period (000s omitted)	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000
Asset coverage per \$1,000 of borrowing, end of period	\$3,570	\$3,944	\$3,998	\$4,110	\$3,954

¹ Calculated based upon average shares outstanding

² Total return is calculated assuming a purchase of common stock on the first day and sale on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan. Total return does not reflect brokerage commissions that a shareholder would pay on the purchase and sale of shares.

³ Ratios include interest expense relating to interest associated with borrowings and/or leverage transactions as follows:

Year ended October 31, 2015	0.24%
Year ended October 31, 2014	0.07%
Year ended October 31, 2013	0.07%
Year ended October 31, 2012	0.11%
Year ended October 31, 2011	0.09%

The accompanying notes are an integral part of these financial statements.

Table of Contents

24 Wells Fargo Multi-Sector Income Fund

Notes to financial statements

1. ORGANIZATION

The *Wells Fargo Multi-Sector Income Fund* (the *Fund*) was organized as a statutory trust under the laws of the state of Delaware on April 10, 2003 and is registered as a diversified closed-end management investment company under the Investment Company Act of 1940, as amended. As an investment company, the Fund follows the accounting and reporting guidance in Financial Accounting Standards Board (*FASB*) Accounting Standards Codification Topic 946, *Financial Services – Investment Companies*.

2. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies, which are consistently followed in the preparation of the financial statements of the Fund, are in conformity with U.S. generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities valuation

All investments are valued each business day as of the close of regular trading on the New York Stock Exchange (generally 4 p.m. Eastern Time).

Debt securities are valued at the evaluated bid price provided by an independent pricing service or, if a reliable price is not available, the quoted bid price from an independent broker-dealer.

Equity securities that are listed on a foreign or domestic exchange or market are valued at the official closing price or, if none, the last sales price. If no sale occurs on the primary exchange or market that day, the prior day's price will be deemed stale and a fair value price will be determined in accordance with the Fund's Valuation Procedures.

Equity securities that are not listed on a foreign or domestic exchange or market, but have a public trading market, are valued at the quoted bid price from an independent broker-dealer that the Management Valuation Team of Wells Fargo Funds Management, LLC (*Funds Management*) has determined is an acceptable source.

The values of securities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team.

Investments in registered open-end investment companies are valued at net asset value.

Investments which are not valued using any of the methods discussed above are valued at their fair value, as determined in good faith by the Board of Trustees of the Fund. The Board of Trustees has established a Valuation Committee comprised of the Trustees and has delegated to it the authority to take any actions regarding the valuation of portfolio securities that the Valuation Committee deems necessary or appropriate, including determining the fair value of portfolio securities, unless the determination has been delegated to the Management Valuation Team. The Board of Trustees retains the authority to make or ratify any valuation decisions or approve any changes to the Valuation Procedures as it deems appropriate. On a quarterly basis, the Board of Trustees receives reports on any

valuation actions taken by the Valuation Committee or the Management Valuation Team which may include items for ratification.

Valuations of fair valued securities are compared to the next actual sales price when available, or other appropriate market values, to assess the continued appropriateness of the fair valuation methodologies used. These securities are fair valued on a day-to-day basis, taking into consideration changes to appropriate market information and any significant changes to the inputs considered in the valuation process until there is a readily available price provided on an exchange or by an independent pricing service. Valuations received from an independent pricing service or independent broker-dealer quotes are periodically validated by comparisons to most recent trades and valuations provided by other independent pricing services in addition to the review of prices by the adviser and/or subadviser. Unobservable inputs used in determining fair valuations are identified based on the type of security, taking into consideration factors utilized by market participants in valuing the investment, knowledge about the issuer and the current market environment.

Foreign currency translation

The accounting records of the Fund are maintained in U.S. dollars. The values of other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team. Purchases and sales of securities, and income and expenses are converted at the rate of exchange on the respective dates of such transactions. Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and

Table of Contents

Notes to financial statements Wells Fargo Multi-Sector Income Fund 25
settlement dates on securities transactions, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded and the U.S. dollar equivalent of the amounts actually paid or received. Net unrealized foreign exchange gains and losses arise from changes in the fair value of assets and liabilities other than investments in securities resulting from changes in exchange rates. The changes in net assets arising from changes in exchange rates and the changes in net assets resulting from changes in market prices of securities are not separately presented. Such changes are included in with net realized and unrealized gains or losses from investments.

Forward foreign currency contracts

The Fund is subject to foreign currency exchange rate risk in the normal course of pursuing its investment objectives. A forward foreign currency contract is an agreement between two parties to purchase or sell a specific currency for an agreed-upon price at a future date. The Fund enters into forward foreign currency contracts to facilitate transactions in foreign-denominated securities and to attempt to minimize the risk to the Fund from adverse changes in the relationship between currencies. Forward foreign currency contracts are recorded at the forward rate and marked-to-market

daily. When the contracts are closed, realized gains and losses arising from such transactions are recorded as realized gains or losses on forward foreign currency contract transactions. The Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably. The Fund's maximum risk of loss from counterparty credit risk is the unrealized gains or losses on the contracts. This risk may be mitigated if there is a master netting arrangement between the Fund and the counterparty.

When-issued transactions

The Fund may purchase securities on a forward commitment or when-issued basis. The Fund records a when-issued transaction on the trade date and will segregate assets in an amount at least equal in value to the Fund's commitment to purchase when-issued securities. Securities purchased on a when-issued basis are marked-to-market daily and the Fund begins earning interest on the settlement date. Losses may arise due to changes in the market value of the underlying securities or if the counterparty does not perform under the contract.

Loans

The Fund may invest in direct debt instruments which are interests in amounts owed to lenders by corporate or other borrowers. The loans pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. Investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties. When the Fund purchases participations, it generally has no rights to enforce compliance with terms of the loan agreement with the borrower. As a result, the Fund assumes the credit risk of both the borrower and the lender that is selling the participation. When the Fund purchases assignments from lenders, it acquires direct rights against the borrower on the loan and may enforce compliance by the borrower with the terms of the loan agreement. Loans may include fully funded term loans or unfunded loan commitments, which are contractual obligations for future funding.

Security transactions and income recognition

Securities transactions are recorded on a trade date basis. Realized gains or losses are recorded on the basis of identified cost.

Interest income is accrued daily and bond discounts are accreted and premiums are amortized daily based on the effective interest method. To the extent debt obligations are placed on non-accrual status, any related interest income may be reduced by writing off interest receivables when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. If the issuer subsequently resumes interest payments or when the collectability of interest is reasonably assured, the debt obligation is removed from non-accrual status.

Dividend income is recognized on the ex-dividend date.

Income from foreign securities is recorded net of foreign taxes withheld where recovery of such taxes is not assured.

Distributions to shareholders

Distributions to shareholders from net investment income and net realized gains, if any, are recorded on the ex-dividend date. Such distributions are determined in conformity with federal income tax regulations, which may differ in amount or character from net investment income and realized gains recognized for purposes of U.S. generally accepted accounting principles.

Table of Contents**26 Wells Fargo Multi-Sector Income Fund
Federal and other taxes**

Notes to financial statements

The Fund intends to continue to qualify as a regulated investment company by distributing substantially all of its investment company taxable income and any net realized capital gains (after reduction for capital loss carryforwards) sufficient to relieve it from all, or substantially all, federal income taxes. Accordingly, no provision for federal income taxes was required.

The Fund's income and federal excise tax returns and all financial records supporting those returns for the prior three fiscal years are subject to examination by the federal and Delaware revenue authorities. Management has analyzed the Fund's tax positions taken on federal, state, and foreign tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability.

Reclassifications are made to the Fund's capital accounts for permanent tax differences to reflect income and gains available for distribution (or available capital loss carryforwards) under federal income tax regulations. U.S. generally accepted accounting principles require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or the net asset value per share. The primary permanent differences causing such reclassifications are due to bond premiums, foreign currency transactions, and paydown losses. At October 31, 2015, as a result of permanent book-to-tax differences, the following reclassification adjustments were made on the Statement of Assets and Liabilities:

Paid-in capital	Overdistributed net investment income	Accumulated net realized losses on investments
\$(85,583)	\$(10,432,354)	\$10,517,937

Capital loss carryforwards that do not expire are required to be utilized prior to capital loss carryforwards that expire. As of October 31, 2015, capital loss carryforwards available to offset future net realized capital gains were as follows through the indicated expiration dates:

2018	No expiration	
	Short-term	Long-term
\$86,701,155	\$4,490,558	\$1,934,103

3. FAIR VALUATION MEASUREMENTS

Fair value measurements of investments are determined within a framework that has established a fair value hierarchy based upon the various data inputs utilized in determining the value of the Fund's investments. The three-level hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to significant unobservable inputs (Level 3). The Fund's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The inputs are summarized into three broad levels as follows:

n Level 1 quoted prices in active markets for identical securities

n Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, use of amortized cost, etc.)

n Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodologies used for valuing investments in securities are not necessarily an indication of the risk associated with investing in those securities.

Table of Contents

Notes to financial statements

Wells Fargo Multi-Sector Income Fund 27

The following is a summary of the inputs used in valuing the Fund's assets and liabilities as of October 31, 2015:

	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Investments in:				
Agency securities	\$ 0	\$ 15,033,131	\$ 0	\$ 15,033,131
Asset-backed securities	0	891,679	0	891,679
Common stocks				
Materials	836	0	0	836
Telecommunication services	463,604	0	0	463,604
Corporate bonds and notes	0	430,103,423	0	430,103,423
Foreign corporate bonds and notes	0	15,217,461	0	15,217,461
Foreign government bonds	0	141,775,478	0	141,775,478
Loans	0	84,543,076	16,654,991	101,198,067
Municipal obligations	0	342,354	0	342,354
Non-agency mortgage-backed securities	0	45,932,700	0	45,932,700
Preferred stocks				
Financials	1,146,852	0	0	1,146,852
Yankee corporate bonds and notes	0	50,536,408	729,281	51,265,689
Short-term investments				
Investment companies	14,571,777	0	0	14,571,777
	16,183,069	784,375,710	17,384,272	817,943,051
Forward foreign currency contracts	0	196,852	0	196,852
Total assets	\$ 16,183,069	\$ 784,572,562	\$ 17,384,272	\$ 818,139,903
Liabilities				
Forward foreign currency contracts	\$ 0	\$ 1,121,532	\$ 0	\$ 1,121,532
Total liabilities	\$ 0	\$ 1,121,532	\$ 0	\$ 1,121,532

Forward foreign currency contracts are reported at their unrealized gains (losses) at measurement date, which represents the change in the contract's value from trade date. All other assets and liabilities are reported at their market value at measurement date.

Edgar Filing: WELLS FARGO MULTI-SECTOR INCOME FUND - Form N-CSR

The Fund recognizes transfers between levels within the fair value hierarchy at the end of the reporting period. At October 31, 2015, the Fund did not have any transfers into/out of Level 1 or Level 2.

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

	Loans	Yankee corporate bonds and notes	Total
Balance as of October 31, 2014	\$ 14,853,033	\$ 0	\$ 14,853,033
Accrued discounts (premiums)	8,871	0	8,871
Realized gains (losses)	(46,796)	0	(46,796)
Change in unrealized gains (losses)	(136,034)	0	(136,034)
Purchases	9,749,263	0	9,749,263
Sales	(6,426,038)	0	(6,426,038)
Transfers into Level 3	3,295,545	729,281	4,024,826
Transfers out of Level 3	(4,642,853)	0	(4,642,853)
Balance as of October 31, 2015	\$ 16,654,991	\$ 729,281	\$ 17,384,272
Change in unrealized gains (losses) relating to securities still held at October 31, 2015	\$ (108,949)	\$ 0	\$ (108,949)

Table of Contents

28 Wells Fargo Multi-Sector Income Fund Notes to financial statements
The investment types categorized above were valued using indicative broker quotes. These indicative broker quotes are considered Level 3 inputs. Quantitative unobservable inputs used by the brokers are often proprietary and not provided to the Fund and therefore the disclosure that would address these inputs is not included above.

4. TRANSACTIONS WITH AFFILIATES

Advisory fee

Funds Management, an indirect wholly owned subsidiary of Wells Fargo & Company (Wells Fargo) is the adviser to the Fund and is entitled to receive a fee at an annual rate of 0.55% of the Fund's average daily total assets. Total assets consist of net assets of the Fund plus borrowings or other leverage for investment purposes to the extent excluded in calculating net assets.

Funds Management has retained the services of certain subadvisers to provide daily portfolio management to the Fund. The fees for subadvisory services are borne by Funds Management. Wells Capital Management Incorporated, an affiliate of Funds Management and an indirect wholly owned subsidiary of Wells Fargo, is a subadviser to the Fund and is entitled to receive a fee from Funds Management at an annual rate of 0.30% of the Fund's average daily total assets. First International Advisors, LLC, an affiliate of Funds Management and an indirect wholly owned subsidiary of Wells Fargo, is also a subadviser to the Fund and is entitled to receive a fee from Funds Management at an annual rate of 0.10% of the Fund's average daily total assets.

Administration fee

Funds Management also serves as the administrator to the Fund, providing the Fund with a wide range of administrative services necessary to the operation of the Fund. Funds Management is entitled to receive an annual administration fee from the Fund equal to 0.05% of the Fund's average daily total assets.

5. CAPITAL SHARE TRANSACTIONS

The Fund has authorized capital of 100,000,000 shares with no par value. For the year ended October 31, 2015 and year ended October 31, 2014, the Fund did not issue any shares.

6. BORROWING AND LEVERAGE TRANSACTIONS

The Fund has borrowed \$230 million through a revolving credit facility administered by a major financial institution (the Facility). The Facility has a commitment amount of \$230 million with no specific contract expiration date but the Facility can be terminated upon 180 days' notice. The Fund is charged interest at London Interbank Offered Rate (LIBOR) plus 0.70% and a commitment fee of 0.30% of the average daily unutilized amount of the commitment which may be waived if the amount drawn on the Facility is over 75% of the committed amount.

Prior to March 6, 2015, the Fund borrowed under a secured debt financing agreement and was charged interest at a rate based on the rates of the commercial paper notes issued to fund the Fund's borrowings or at LIBOR plus 1.00%. The Fund had pledged all of its assets to secure the borrowings and paid both a usage fee and a commitment fee each at an annual rate of 0.40% of the daily average outstanding principal amount of borrowings.

At October 31, 2015, the Fund had borrowings outstanding in the amount of \$230,143,090 (including accrued interest payable). For the year ended October 31, 2015, the borrowing fees on the Statement of Operations of \$634,892 represents the usage and commitment fees incurred under the prior agreement. During the year ended October 31, 2015, an effective interest rate of 0.67% was incurred on the borrowings and the Fund incurred interest expense in the amount of \$1,530,078, representing 0.24% of the Fund's average daily net assets.

7. INVESTMENT PORTFOLIO TRANSACTIONS

Purchases and sales of investments, excluding U.S. government obligations (if any) and short-term securities, for the year ended October 31, 2015 were \$320,470,662 and \$262,987,840, respectively.

As of October 31, 2015, the Fund had unfunded term loan commitments of \$5,310,594.

8. DERIVATIVE TRANSACTIONS

During the year ended October 31, 2015, the Fund entered into forward foreign currency contracts for economic hedging purposes.

Table of Contents

Notes to financial statements

Wells Fargo Multi-Sector Income Fund 29

At October 31, 2015, the Fund had forward foreign currency contracts outstanding as follows:

Forward foreign currency contracts to buy:

Exchange date	Counterparty	Contracts to receive	U.S. value at October 31, 2015	In exchange for U.S. \$	Unrealized gains (losses)
11-12-2015	State Street Bank	31,500,000 MYR	\$ 7,325,850	\$ 8,082,104	\$ (756,254)
11-24-2015	State Street Bank	132,600,000 THB	3,725,227	3,672,113	53,114

Forward foreign currency contracts to sell:

Exchange Date	Counterparty	Contracts to deliver	U.S. value at October 31, 2015	In exchange for U.S. \$	Unrealized gains (losses)
11-10-2015	State Street Bank	4,600,000,000 COP	\$ 1,586,679	\$ 1,567,825	\$ (18,854)
11-12-2015	State Street Bank	16,250,000 MYR	3,779,208	3,901,561	122,353
11-24-2015	State Street Bank	18,250,000,000 IDR	1,325,427	1,262,539	(62,888)
11-24-2015	State Street Bank	14,475,000 BRL	3,728,272	3,520,613	(207,659)
12-9-2015	State Street Bank	1,525,000,000 HUF	5,393,163	5,414,548	21,385
12-11-2015	State Street Bank	4,000,000 TRY	1,356,494	1,292,985	(63,509)
1-29-2016	State Street Bank	86,600,000 MXN	5,210,836	5,198,468	(12,368)

The Fund had average contract amounts of \$24,761,113 and \$42,695,867 in forward foreign currency contracts to buy and forward foreign currency contracts to sell, respectively, during the year ended October 31, 2015.

The fair value, realized gains or losses and change in unrealized gains or losses, if any, on derivative instruments are reflected in the appropriate financial statements.

For certain types of derivative transactions, the Fund has entered into International Swaps and Derivatives Association, Inc. master agreements (ISDA Master Agreements) or similar agreements with approved counterparties. The ISDA Master Agreements or similar agreements may have requirements to deliver/deposit securities or cash to/with an exchange or broker-dealer as collateral and allows the Fund to offset, with each counterparty, certain derivative financial instrument s assets and/or liabilities with collateral held or pledged. Collateral requirements differ by type of derivative. Collateral or margin requirements are set by the broker or exchange clearing house for exchange traded derivatives while collateral terms are contract specific for over-the-counter traded derivatives. Cash collateral that has been pledged to cover obligations of the Fund under ISDA Master Agreements or similar agreements, if any, are reported separately in the Statement of Assets and Liabilities. Securities pledged as collateral, if any, are noted in the Summary Portfolio of Investments. With respect to balance sheet offsetting, absent an event of default by the counterparty or a termination of the agreement, the reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities are not offset across transactions between the Fund and the applicable counterparty. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by derivative type, including any collateral exposure, is as follows:

Derivative type	Counterparty	Gross amounts of assets in the Statement of Assets and Liabilities	Amounts subject to netting agreements	Collateral received	Net amount of assets
Forward foreign currency contracts	State Street Bank	\$196,852*	\$ (196,852)	\$ 0	\$ 0

* Amount represents net unrealized gains.

Derivative type	Counterparty	Gross amounts of liabilities in the Statement of Assets and Liabilities	Amounts subject to netting agreements	Collateral pledged	Net amount of liabilities
Forward foreign currency contracts	State Street Bank	\$1,121,532**	\$ (196,852)	\$ 0	\$ 924,680

** Amount represents net unrealized losses.

Table of Contents

30 Wells Fargo Multi-Sector Income Fund

Notes to financial statements

9. DISTRIBUTIONS TO SHAREHOLDERS

The tax character of distributions paid during the years ended October 31, 2015 and October 31, 2014 were as follows:

	Year ended October 31	
	2015	2014
Ordinary income	\$ 36,559,777	\$ 38,167,582
Tax basis return of capital	\$ 12,379,627	12,298,418

As of October 31, 2015, the components of distributable earnings on a tax basis were as follows:

Unrealized losses	Capital loss carryforward
\$(60,895,764)	\$(93,125,816)

10. INDEMNIFICATION

Under the Fund's organizational documents, the officers and Trustees have been granted certain indemnification rights against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund may enter into contracts with service providers that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated.

11. SUBSEQUENT DISTRIBUTIONS

The Fund declared the following distributions to shareholders:

Declaration date	Record date	Payable date	Per share amount
October 30, 2015	November 16, 2015	December 1, 2015	\$0.0967
November 18, 2015	December 15, 2015	January 4, 2016	\$0.0967

These distributions are not reflected in the accompanying financial statements. The final determination of the source of all distributions is subject to change and made after the Fund's tax year-end.

Table of Contents

Report of independent registered public accounting firm Wells Fargo Multi-Sector Income Fund 31

BOARD OF TRUSTEES AND SHAREHOLDERS OF WELLS FARGO MULTI-SECTOR INCOME FUND:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments and the summary portfolio of investments, of the Wells Fargo Multi-Sector Income Fund (the Fund), as of October 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, the statement of cash flows for the year then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2015, by correspondence with the custodian and brokers, or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Wells Fargo Multi-Sector Income Fund as of October 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, its cash flows for the year then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts

December 22, 2015

Table of Contents

32 Wells Fargo Multi-Sector Income Fund Other information (unaudited)
For the fiscal year ended October 31, 2015, \$29,333,157 has been designated as interest-related dividends for nonresident alien shareholders pursuant to Section 871 of the Internal Revenue Code.

PROXY VOTING INFORMATION

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available, upon request, by calling **1-800-222-8222**, visiting our website at **wellsfargofunds.com**, or visiting the SEC website at sec.gov. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available on the Fund's website at **wellsfargofunds.com** or by visiting the SEC website at sec.gov.

PORTFOLIO HOLDINGS INFORMATION

The complete portfolio holdings for the Fund are publicly available monthly on the Fund's website (**wellsfargofunds.com**), on a one-month delayed basis. The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q, which is available by visiting the SEC website at sec.gov. In addition, the Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC, and at regional offices in New York City, at 233 Broadway, and in Chicago, at 175 West Jackson Boulevard, Suite 900. Information about the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Table of Contents

Other information (unaudited)

Wells Fargo Multi-Sector Income Fund 33

BOARD OF TRUSTEES AND OFFICERS

The following table provides basic information about the Board of Trustees (the Trustees) and Officers of the Fund. Each of the Trustees and Officers listed below acts in identical capacities for each fund in the Wells Fargo family of funds, which consists of 144 mutual funds comprising the Wells Fargo Funds Trust, Wells Fargo Variable Trust, Wells Fargo Master Trust, and four closed-end funds, including the Fund (collectively the Fund Complex). The mailing address of each Trustee and Officer is 525 Market Street, 12th Floor, San Francisco, CA 94105. The Board of Trustees is classified into three classes of which one is elected annually. Each Trustee serves a three-year term concurrent with the class from which the Trustee is elected. Each Officer serves an indefinite term.

Independent Trustees

Name and year of birth	Position held and length of service	Principal occupations during past five years or longer	Other public company or investment company directorships during past 5 years
William R. Ebsworth (Born 1957)	Trustee, since 2015*	Retired. From 1984 to 2013, equities analyst, portfolio manager, research director at Fidelity Management and Research Company in Boston, Tokyo, and Hong Kong, and retired in 2013 as Chief Investment Officer of Fidelity Strategic Advisers, Inc. where he led a team of investment professionals managing client assets. Prior thereto, Board member of Hong Kong Securities Clearing Co., Hong Kong Options Clearing Corp., the Thailand International Fund, Ltd., Fidelity Investments Life Insurance Company, and Empire Fidelity Investments Life Insurance Company. Mr. Ebsworth is a CFA® charterholder and an Adjunct Lecturer, Finance, at Babson College.	Asset Allocation Trust
Jane A. Freeman (Born 1953)	Trustee, since 2015*	Retired. From 2012 to 2014 and 1999 to 2008, Chief Financial Officer of Scientific Learning Corporation. From 2008 to 2012, Ms. Freeman provided consulting services related to strategic business projects. Prior to 1999, Portfolio Manager at Rockefeller & Co. and Scudder, Stevens & Clark. Board member of the Harding Loevner Funds from 1996 to 2014, serving as both Lead Independent Director and chair of the Audit Committee. Board member of the Russell Exchange Traded Funds Trust from 2011 to 2012 and the chair of the Audit Committee. Ms. Freeman	Asset Allocation Trust, Harding Loevner Funds; Russell Exchange Traded Funds Trust

<p>Peter G. Gordon (Born 1942) Isaiah Harris, Jr. (Born 1952)</p>	<p>Trustee, since 2010; Chairman, since 2010 Trustee, since 2010</p>	<p>is Chair of Taproot Foundation (non-profit organization), a Board Member of Ruth Bancroft Garden (non-profit organization) and an inactive chartered financial analyst. Co-Founder, Retired Chairman, President and CEO of Crystal Geyser Water Company. Trustee Emeritus, Colby College. Retired. Chairman of the Board of CIGNA Corporation since 2009, and Director since 2005. From 2003 to 2011, Director of Deluxe Corporation. Prior thereto, President and CEO of BellSouth Advertising and Publishing Corp. from 2005 to 2007, President and CEO of BellSouth Enterprises from 2004 to 2005 and President of BellSouth Consumer Services from 2000 to 2003. Emeritus member of the Iowa State University Foundation Board of Governors. Emeritus Member of the Advisory Board of Iowa State University School of Business. Advisory Board Member, Palm Harbor Academy charter school). Mr. Harris is a certified public accountant.</p>	<p>Asset Allocation Trust CIGNA Corporation; Asset Allocation Trust</p>
<p>Judith M. Johnson (Born 1949)</p>	<p>Trustee, since 2010; Audit Committee Chairman, since 2010</p>	<p>Retired. Prior thereto, Chief Executive Officer and Chief Investment Officer of Minneapolis Employees Retirement Fund from 1996 to 2008. Ms. Johnson is an attorney, certified public accountant and a certified managerial accountant.</p>	<p>Asset Allocation Trust</p>
<p>David F. Larcker (Born 1950)</p>	<p>Trustee, since 2010</p>	<p>James Irvin Miller Professor of Accounting at the Graduate School of Business, Stanford University, Morgan Stanley Director of the Center for Leadership Development and Research and Senior Faculty of The Rock Center for Corporate Governance since 2006. From 2005 to 2008, Professor of Accounting at the Graduate School of Business, Stanford University. Prior thereto, Ernst & Young Professor of Accounting at The Wharton School, University of Pennsylvania from 1985 to 2005.</p>	<p>Asset Allocation Trust</p>

Table of Contents

34 Wells Fargo Multi-Sector Income Fund			Other information (unaudited)
Name and year of birth	Position held and length of service	Principal occupations during past five years or longer	Other public company or investment company directorships during past 5 years
Olivia S. Mitchell (Born 1953)	Trustee, since 2010	International Foundation of Employee Benefit Plans Professor, Wharton School of the University of Pennsylvania since 1993. Director of Wharton's Pension Research Council and Boettner Center on Pensions & Retirement Research, and Research Associate at the National Bureau of Economic Research. Previously, Cornell University Professor from 1978 to 1993.	Asset Allocation Trust
Timothy J. Penny (Born 1951)	Trustee, since 2010	President and Chief Executive Officer of Southern Minnesota Initiative Foundation, a non-profit organization, since 2007 and Senior Fellow at the Humphrey Institute Policy Forum at the University of Minnesota since 1995. Member of the Board of Trustees of NorthStar Education Finance, Inc., a non-profit organization, since 2007.	Asset Allocation Trust
Michael S. Scofield (Born 1943)	Trustee, since 2003	Served on the Investment Company Institute's Board of Governors and Executive Committee from 2008-2011 as well the Governing Council of the Independent Directors Council from 2006-2011 and the Independent Directors Council Executive Committee from 2008-2011. Chairman of the IDC from 2008-2010. Institutional Investor (Fund Directions) Trustee of Year in 2007. Trustee of the Evergreen Funds complex (and its predecessors) from 1984 to 2010. Chairman of the Evergreen Funds from 2000-2010. Former Trustee of the Mentor Funds. Retired Attorney, Law Offices of Michael S. Scofield.	Asset Allocation Trust
Donald C. Willeke (Born 1940)	Trustee, since 2010**	Principal of the law firm of Willeke & Daniels. General Counsel of the Minneapolis Employees Retirement Fund from 1984 until its consolidation into the Minnesota Public Employees Retirement Association on June 30, 2010. Director and Vice Chair of The Tree Trust (non-profit corporation). Director of the American Chestnut Foundation (non-profit corporation).	Asset Allocation Trust

* William R. Ebsworth and Jane A. Freeman each became a Trustee effective January 1, 2015.

** Donald Willeke will retire as a Trustee effective December 31, 2015.

Officers

Name and year of birth	Position held and length of service	Principal occupations during past five years or longer
Karla M. Rabusch (Born 1959)	President, since 2010	Executive Vice President of Wells Fargo Bank, N.A. and President of Wells Fargo Funds Management, LLC since 2003.
Jeremy DePalma ¹ (Born 1974)	Treasurer, since 2012	Senior Vice President of Wells Fargo Funds Management, LLC since 2009. Senior Vice President of Evergreen Investment Management Company, LLC from 2008 to 2010 and head of the Fund Reporting and Control Team within Fund Administration from 2005 to 2010.
C. David Messman (Born 1960)	Secretary, since 2010; Chief Legal Officer, since 2010	Senior Vice President and Secretary of Wells Fargo Funds Management, LLC since 2001. Assistant General Counsel of Wells Fargo Bank, N.A. since 2013 and Vice President and Managing Counsel of Wells Fargo Bank N.A. from 1996 to 2013.
Debra Ann Early (Born 1964)	Chief Compliance Officer, since 2010	Executive Vice President of Wells Fargo Funds Management, LLC since 2014, Senior Vice President and Chief Compliance Officer from 2007 to 2014.
David Berardi (Born 1975)	Assistant Treasurer, since 2009	Vice President of Wells Fargo Funds Management, LLC since 2009. Vice President of Evergreen Investment Management Company, LLC from 2008 to 2010. Manager of Fund Reporting and Control for Evergreen Investment Management Company, LLC from 2004 to 2010.

¹ Jeremy DePalma acts as Treasurer of 72 funds and Assistant Treasurer of 72 funds in the Fund Complex.

Table of Contents

Other information (unaudited) Wells Fargo Multi-Sector Income Fund 35
BOARD CONSIDERATION OF INVESTMENT ADVISORY AND SUB-ADVISORY AGREEMENTS:

Under the Investment Company Act of 1940 (the 1940 Act), the Board of Trustees (the Board) of *Wells Fargo Advantage Multi-Sector Income Fund* (the Fund) must determine whether to approve the continuation of the Fund's investment advisory and sub-advisory agreements. In this regard, at an in-person meeting held on May 19-20, 2015 (the Meeting), the Board, all the members of which have no direct or indirect interest in the investment advisory and sub-advisory agreements and are not interested persons of the Fund, as defined in the 1940 Act (the Independent Trustees), reviewed and approved: (i) an investment advisory agreement with Wells Fargo Funds Management, LLC (Funds Management), (ii) an investment sub-advisory agreement with Wells Capital Management Incorporated (WellsCap), an affiliate of Funds Management; and (iii) an investment sub-advisory agreement with First International Advisors, LLC (FIA), and affiliate of Funds Management. The investment advisory agreement with Funds Management and the investment sub-advisory agreements with WellsCap and FIA (each, a Sub-Adviser and together, the Sub-Advisers) are collectively referred to as the Advisory Agreements.

At the Meeting, the Board considered the factors and reached the conclusions described below relating to the selection of Funds Management and the Sub-Advisers and the continuation of the Advisory Agreements. Prior to the Meeting, including at an in-person meeting in March 2015, the Trustees conferred extensively among themselves and with representatives of Funds Management about these matters. Also, the Board has adopted a team-based approach, with each team consisting of a sub-set of Trustees, to assist the full Board in the discharge of its duties in reviewing performance and other matters throughout the year. The Independent Trustees were assisted in their evaluation of the Advisory Agreements by independent legal counsel, from whom they received separate legal advice and with whom they met separately.

In providing information to the Board, Funds Management and the Sub-Advisers were guided by a detailed set of requests for information submitted to them by independent legal counsel on behalf of the Independent Trustees at the start of the Board's annual contract renewal process earlier in 2015. In considering and approving the Advisory Agreements, the Trustees considered the information they believed relevant, including but not limited to the information discussed below. The Board considered not only the specific information presented in connection with the Meeting, but also the knowledge gained over time through interaction with Funds Management and the Sub-Advisers about various topics. In this regard, the Board reviewed reports of Funds Management at each of its quarterly meetings, which included, among other things, portfolio reviews and performance reports. In addition, the Board and the teams mentioned above confer with portfolio managers at various times throughout the year. The Board did not identify any particular information or consideration that was all-important or controlling, and each individual Trustee may have attributed different weights to various factors.

After its deliberations, the Board unanimously approved the continuation of the Advisory Agreements and determined that the compensation payable to Funds Management and the Sub-Advisers is reasonable. The Board considered the continuation of the Advisory Agreements for the Fund as part of its consideration of agreements for funds across the complex, but its approvals were made on a fund-by-fund basis. The following summarizes a number of important, but not necessarily all, factors considered by the Board in support of its approvals.

Nature, extent and quality of services

The Board received and considered various information regarding the nature, extent and quality of services provided to the Fund by Funds Management and the Sub-Advisers under the Advisory Agreements. This information included,

among other things, a summary of the background and experience of senior management of Funds Management, and the qualifications, background, tenure and responsibilities of each of the portfolio managers primarily responsible for the day-to-day portfolio management of the Fund.

The Board evaluated the ability of Funds Management and the Sub-Advisers to attract and retain qualified investment professionals, including research, advisory and supervisory personnel. The Board further considered the compliance programs and compliance records of Funds Management and the Sub-Advisers. In addition, the Board took into account the full range of services provided to the Fund by Funds Management and its affiliates.

Fund performance and expenses

The Board considered the performance results for the Fund over various time periods ended March 31, 2015. The Board considered these results in comparison to the performance of funds in a custom peer group that included funds selected by Lipper, Inc. (Lipper) and additional funds that were determined by Funds Management to be similar to the Fund (the Custom Peer Group), and in comparison to the Fund's benchmark index and to other comparative data. The Board received a description of the methodology used by Lipper and Funds Management to select the funds in the Custom

Table of Contents

36 Wells Fargo Multi-Sector Income Fund Other information (unaudited)
Peer Group and discussed the limitations inherent in the use of other peer groups. The Board noted that the performance of the Fund was higher than the average performance of the Custom Peer Group for all periods under review. The Board also noted that the performance of the Fund was higher than its benchmark, the ERC Blended Index, which is a proprietary index used by the Board to help it assess the Fund's relative performance, for all periods under review.

The Board also received and considered information regarding the Fund's net operating expense ratio and its various components, including actual management fees (which reflect fee waivers, if any, and include advisory and administration fees), and custodian and other non-management fees. The Board considered this ratio in comparison to the median ratio of funds in an expense group that was determined by Lipper to be similar to the Fund (the Group). Lipper is an independent provider of investment company data. The Board received a description of the methodology used by Lipper to select the funds in the expense Group and an explanation of how funds comprising expense groups and their expense ratios may vary from year-to-year. Based on the Lipper reports, the Board noted that the net operating expense ratio of the Fund was lower than the median net operating expense ratio of the expense Group.

The Board took into account the Fund performance and expense information provided to it among the factors considered in deciding to re-approve the Advisory Agreements.

Investment advisory and sub-advisory fee rates

The Board reviewed and considered the contractual investment advisory fee rate that is payable by the Fund to Funds Management for investment advisory services (the Advisory Agreement Rate), both on a stand-alone basis and on a combined basis with the Fund's contractual administration fee rate (the Management Rate). The Board also reviewed and considered the contractual investment sub-advisory fee rates that are payable by Funds Management to each of the Sub-Advisers for investment sub-advisory services (the Sub-Advisory Agreement Rate).

Among other information reviewed by the Board was a comparison of the Management Rate of the Fund with those of other funds in the expense Group at a common asset level. The Board noted that the Management Rate of the Fund was lower than the average rate for the Fund's expense Group.

The Board also received and considered information about the portion of the total advisory fee that was retained by Funds Management after payment of the fee to the Sub-Advisers for sub-advisory services. In assessing the reasonableness of this amount, the Board received and evaluated information about the nature and extent of responsibilities retained and risks assumed by Funds Management and not delegated to or assumed by the Sub-Advisers, and about Funds Management's on-going oversight services. However, given the affiliation between Funds Management and the Sub-Advisers, the Board ascribed limited relevance to the allocation of the advisory fee between them.

Based on its consideration of the factors and information it deemed relevant, including those described here, the Board determined that the Advisory Agreement Rate and each Sub-Advisory Agreement Rate was reasonable, in light of the services covered by the Advisory Agreements.

Profitability

The Board received and considered information concerning the profitability of Funds Management, as well as the profitability of Wells Fargo as a whole, from providing services to the Fund and the fund family as a whole. The Board also received and considered information concerning the profitability of the Sub-Advisers from providing services to the fund family as a whole, noting that the Sub-Advisers' profitability information with respect to providing services to the Fund was subsumed in the Wells Fargo profitability analysis.

Funds Management reported on the methodologies and estimates used in calculating profitability. Among other things, the Board noted that the levels of profitability reported on a fund-by-fund basis varied widely, depending on factors such as the size and type of fund. Based on its review, the Board did not deem the profits reported by Funds Management or Wells Fargo from its services to the Fund to be at a level that would prevent it from approving the continuation of the Advisory Agreements.

Economies of scale

The Board considered the extent to which there may be sharing with the Fund of potential economies of scale in the provision of advisory services to the Fund. The Board noted that, as is typical of closed-end funds, there are no breakpoints in the Management Rate. Although the Fund would not share in any potential economies of scale through contractual breakpoints, the Board noted that fee waiver and expense reimbursement arrangements and competitive fee rates at the outset are means of sharing potential economies of scale with shareholders of the Fund and the fund family as a whole. The Board concluded that the Fund's fee waiver and expense arrangements constituted a reasonable approach to sharing potential economies of scale with the Fund and its shareholders. The Board also noted that it would have opportunities to revisit the Management Rate as part of future contract reviews.

Table of Contents

Other information (unaudited)	Wells Fargo Multi-Sector Income Fund	37
Other benefits to Funds Management and the Sub-Advisers		

The Board received and considered information regarding potential fall-out or ancillary benefits received by Funds Management and its affiliates, including the Sub-Advisers, as a result of their relationships with the Fund. Ancillary benefits could include, among others, benefits directly attributable to other relationships with the Fund and benefits potentially derived from an increase in Funds Management's and the Sub-Advisers' business as a result of their relationships with the Fund. The Board also reviewed information about soft dollar credits earned and utilized by WellsCap and commissions earned by affiliated brokers from portfolio transactions.

Based on its consideration of the factors and information it deemed relevant, including those described here, the Board did not find that any ancillary benefits received by Funds Management and its affiliates, including the Sub-Advisers, were unreasonable.

Conclusion

At the Meeting, after considering the above-described factors and based on its deliberations and its evaluation of the information described above, the Board unanimously approved the continuation of the Advisory Agreements for an additional one-year period and determined that the compensation payable to Funds Management and the Sub-Advisers is reasonable.

Table of Contents

38 Wells Fargo Multi-Sector Income Fund

Automatic dividend reinvestment plan

AUTOMATIC DIVIDEND REINVESTMENT PLAN

All common shareholders are eligible to participate in the Automatic Dividend Reinvestment Plan (the Plan). Pursuant to the Plan, unless a common shareholder is ineligible or elects otherwise, all cash dividends and capital gains distributions are automatically reinvested by Computershare Trust Company, N.A., as agent for shareholders in administering the Plan (Plan Agent), in additional common shares of the Fund. Whenever the Fund declares an ordinary income dividend or a capital gain dividend (collectively referred to as dividends) payable either in shares or in cash, nonparticipants in the Plan will receive cash, and participants in the Plan will receive the equivalent in common shares. The shares are acquired by the Plan Agent for the participant s account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund (newly issued common shares) or (ii) by purchase of outstanding common shares on the open-market (open-market purchases) on the NYSE Amex or elsewhere. If, on the payment date for any dividend or distribution, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions (market premium), the Plan Agent will invest the amount of such dividend or distribution in newly issued shares on behalf of the participant. The number of newly issued common shares to be credited to the participant s account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value (market discount), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent s open-market purchases in connection with the reinvestment of dividends. The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 30170, College Station, Texas 77842-3170 or by calling 1-800-730-6001.

Table of Contents

List of abbreviations Wells Fargo Multi-Sector Income Fund 39
 The following is a list of common abbreviations for terms and entities that may have appeared in this report.

ACA	ACA Financial Guaranty Corporation
ADR	American depositary receipt
ADS	American depositary shares
AGC	Assured Guaranty Corporation
AGM	Assured Guaranty Municipal
Ambac	Ambac Financial Group Incorporated
AMT	Alternative minimum tax
AUD	Australian dollar
BAN	Bond anticipation notes
BHAC	Berkshire Hathaway Assurance Corporation
BRL	Brazilian real
CAB	Capital appreciation bond
CAD	Canadian dollar
CCAB	Convertible capital appreciation bond
CDA	Community Development Authority
CDO	Collateralized debt obligation
CHF	Swiss franc
COP	Colombian peso
CLP	Chilean peso
DKK	Danish krone
DRIVER	Derivative inverse tax-exempt receipts
DW&P	Department of Water & Power
DWR	Department of Water Resources
ECFA	Educational & Cultural Facilities Authority
EDA	Economic Development Authority
EDFA	Economic Development Finance Authority
ETF	Exchange-traded fund
EUR	Euro
FDIC	Federal Deposit Insurance Corporation
FFCB	Federal Farm Credit Banks
FGIC	Financial Guaranty Insurance Corporation
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICO	The Financing Corporation
FNMA	Federal National Mortgage Association
FSA	Farm Service Agency
GBP	Great British pound
GDR	Global depositary receipt
GNMA	Government National Mortgage Association
GO	General obligation

HCFR	Healthcare facilities revenue
HEFA	Health & Educational Facilities Authority
HEFAR	Higher education facilities authority revenue
HFA	Housing Finance Authority
HFFA	Health Facilities Financing Authority
HKD	Hong Kong dollar
HUD	Department of Housing and Urban Development
HUF	Hungarian forint
IDA	Industrial Development Authority
IDAG	Industrial Development Agency
IDR	Indonesian rupiah
IEP	Irish pound
JPY	Japanese yen
KRW	Republic of Korea won
LIBOR	London Interbank Offered Rate
LIFER	Long Inverse Floating Exempt Receipts
LIQ	Liquidity agreement
LLC	Limited liability company
LLLP	Limited liability limited partnership
LLP	Limited liability partnership
LOC	Letter of credit
LP	Limited partnership
MBIA	Municipal Bond Insurance Association
MFHR	Multifamily housing revenue
MSTR	Municipal securities trust receipts
MTN	Medium-term note
MUD	Municipal Utility District
MXN	Mexican peso
MYR	Malaysian ringgit
National	National Public Finance Guarantee Corporation
NGN	Nigerian naira
NOK	Norwegian krone
NZD	New Zealand dollar
PCFA	Pollution Control Financing Authority
PCL	Public Company Limited
PCR	Pollution control revenue
PFA	Public Finance Authority
PFFA	Public Facilities Financing Authority
PFOTER	Puttable floating option tax-exempt receipts
plc	Public limited company
PLN	Polish zloty
PUTTER	Puttable tax-exempt receipts
R&D	Research & development
Radian	Radian Asset Assurance
RAN	Revenue anticipation notes
RDA	Redevelopment Authority
RDFA	Redevelopment Finance Authority
REIT	Real estate investment trust
ROC	Reset option certificates
RON	Romanian lei
RUB	Russian ruble

SAVRS	Select auction variable rate securities
SBA	Small Business Authority
SDR	Swedish depositary receipt
SEK	Swedish krona
SFHR	Single-family housing revenue
SFMR	Single-family mortgage revenue
SGD	Singapore dollar
SPA	Standby purchase agreement
SPDR	Standard & Poor's Depositary Receipts
SPEAR	Short Puttable Exempt Adjustable Receipts
STRIPS	Separate trading of registered interest and principal securities
TAN	Tax anticipation notes
TBA	To be announced
THB	Thai baht
TIPS	Treasury inflation-protected securities
TRAN	Tax revenue anticipation notes
TRY	Turkish lira
TTFA	Transportation Trust Fund Authority
TVA	Tennessee Valley Authority
ZAR	South African rand

Table of Contents

This page is intentionally left blank.

Table of Contents

Transfer Agent, Registrar, Shareholder Servicing

Agent & Dividend Disbursing Agent

Computershare Trust Company, N.A.

P.O. Box 30170

College Station, TX 77842-3170

1-800-730-6001

Website: wellsfargofunds.com

Wells Fargo Funds Management, LLC, is a subsidiary of Wells Fargo & Company and is an affiliate of Wells Fargo & Company's broker/dealer subsidiaries. Certain material contained in this report may be considered marketing material and has been reviewed by Wells Fargo Funds Distributor, LLC, Member FINRA, an affiliate of Wells Fargo & Company.

NOT FDIC INSURED ; NO BANK GUARANTEE ; MAY LOSE VALUE

© 2015 Wells Fargo Funds Management, LLC. All rights reserved.

238513 12-15

AMSI/AR143 10-15

Table of Contents

ITEM 2. CODE OF ETHICS

(a) As of the end of the period covered by the report, Wells Fargo Multi-Sector Income Fund has adopted a code of ethics that applies to its President and Treasurer. A copy of the code of ethics is filed as an exhibit to this Form N-CSR.

(c) During the period covered by this report, there were no amendments to the provisions of the code of ethics adopted in Item 2(a) above.

(d) During the period covered by this report, there were no implicit or explicit waivers to the provisions of the code of ethics adopted in Item 2(a) above.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Trustees of Wells Fargo Multi-Sector Income Fund has determined that Judith Johnson is an audit committee financial expert, as defined in Item 3 of Form N-CSR. Mrs. Johnson is independent for purposes of Item 3 of Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(a), (b), (c), (d) The following table presents aggregate fees billed in each of the last two fiscal years for services rendered to the Registrant by the Registrant's principal accountant. These fees were billed to the registrant and were approved by the Registrant's audit committee.