

WELLS FARGO UTILITIES & HIGH INCOME FUND

Form N-CSR

November 01, 2016

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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 Utilities and High 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: August 31

Date of reporting period: August 31, 2016

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ITEM 1. REPORT TO STOCKHOLDERS

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Annual Report

August 31, 2016

Wells Fargo

Utilities and High Income Fund (ERH)

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* 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/utilities-and-high-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 August 31, 2016, 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

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Letter to shareholders (unaudited)

Karla M. Rabusch

President

Wells Fargo Funds

For the 12-month reporting period, U.S. stocks returned 12.55%, utilities stocks returned 20.32%, and high-yield bonds returned 9.18%

Dear Valued Shareholder:

We are pleased to offer you this annual report for the Wells Fargo Utilities and High Income Fund for the 12-month period that ended August 31, 2016. During this period, which began September 1, 2015, U.S. and international stock markets experienced heightened volatility, with intermittent rebounds interspersed with sell-offs; markets became especially volatile during June 2016 as the U.K.'s vote over whether to leave the European Union (E.U.) approached. For the 12-month reporting period, U.S. stocks returned 12.55%, utilities stocks returned 20.32%, and high-yield bonds returned 9.18% (as represented, respectively, by the S&P 500 Index,¹ S&P 500 Utilities Index,² and BofA Merrill Lynch U.S. High Yield Index³). The U.S. economy displayed resilience throughout the period, although growth was somewhat sluggish amid ongoing pressures that included slowing growth in China, a strengthening U.S. dollar, and uncertainty regarding interest-rate increases by the U.S. Federal Reserve (Fed). International economies faced deeper ongoing challenges.

During the last four months of 2015, ongoing global concerns pressured economies and markets worldwide.

China's slowdown, in particular, negatively affected many countries' economies. Because China is the world's largest importer of many commodities, a number of emerging markets' key commodities exporters struggled under the dual strains of reduced demand and depressed prices for commodities. In December 2015, the Fed, as expected, raised its target interest rate by 25 basis points (bps; 100 bps equals 1.00%) after keeping it near zero for seven years. The move reflected confidence in the U.S. economy's ability to stay healthy with less central-bank support. The Fed also clarified that future interest-rate increases would be gradual. Energy prices remained depressed during this period due to improved oil/natural gas extraction efficiency, lackluster industrial demand, and a warm start to the 2015-2016 heating season in the U.S. In this environment, utilities that are more sensitive to changing oil and natural gas prices tended to underperform investments in more stable, rate-based utilities (those that can charge customers rates that are set by

regulatory action). Within the high-yield bond market, performance was challenged by concerns about interest-rate increases and declining commodity prices.

Market volatility increased globally in the first quarter of 2016.

Most stock markets worldwide declined sharply in the first six weeks of 2016 on concerns such as weak global growth, falling commodity prices, and uncertainty over the timing and impact of Fed interest-rate increases. As the quarter progressed, fears abated somewhat and global markets generally rallied back. The U.S. economy ended the quarter on a positive note as much of the quarter's data reflected resiliency. With ongoing uncertainties about global growth and financial markets, however, the Fed held off from raising the target interest rate. Investors bid up the prices of utilities, which often are perceived as low-volatility, safe-haven stocks. Energy stocks gained modestly late in the quarter as oil prices began trending higher. High-yield bond returns declined early in the quarter and then rebounded as the quarter progressed.

Worries over interest rates and the U.K.'s vote largely drove the markets during the second quarter of 2016.

U.S. stocks began the quarter in positive territory but plunged briefly in mid-May following comments by Fed officials noting that a June interest-rate increase remained on the table. Once investors had processed this information, stocks again rallied. But the first three weeks of June brought heightened volatility, spurred largely

¹ The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value. You cannot invest directly in an index.

² The S&P 500 Utilities Index is a market-value-weighted index that measures the performance of all stocks within the utilities sector of the S&P 500 Index. You cannot invest directly in an index.

³ The BofA Merrill Lynch U.S. High Yield Index (formerly known as BofA Merrill Lynch High Yield Master II Index) is a market-capitalization-weighted index of domestic and Yankee high-yield bonds. The index tracks the performance of the high-yield securities traded in the U.S. bond market. You cannot invest directly in an index.

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Letter to shareholders (unaudited) Wells Fargo Utilities and High Income Fund 3

by a disappointing jobs report and uncertainty over whether the U.K. would remain in the E.U. The U.K.'s Brexit vote on June 23 shocked countries in Europe and much of the rest of the world. Stock markets plummeted as investors worried that the U.K.'s departure from the E.U. would slow global growth and prolong the low-interest-rate environment. Following the initial rout, however, U.S. stocks rallied as investors seemed to decide that any negative effects would be more localized and not create a serious risk for global growth. In contrast with the broader market, utilities stocks generally benefited in June, as investors turned more risk averse, and outperformed the overall market for the quarter. Within the high-yield bond market, firmer oil prices led to quarterly outperformance by energy-related bonds. Metals and mining bonds also outperformed as currency volatility sparked by Brexit boosted gold prices and economic data out of China stabilized other commodities prices.

Utilities weakened in July/August 2016; high-yield bonds rallied.

The U.S. economy continued to demonstrate resilience in July and August 2016, and expectations for another interest-rate hike by the Fed in the near future increased. In this environment, investors tended to shift toward areas of the market perceived as more risk-oriented and away from defensive sectors such as utilities, which lagged. High-yield bonds, in contrast, delivered positive results for both months, spurred by investors' improved appetite for risk; lower-quality bonds tended to outperform.

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

We encourage investors to know their investments and to understand that appropriate levels of risk-taking may unlock opportunities.

Notice to shareholders

Effective May 25, 2016, the Fund's Board of Trustees approved a change to the investment strategy guidelines of the Fund which allowed the Fund to hold more than 20% of its assets in securities rated CCC or lower. However, additional securities rated CCC or lower cannot be added to the Fund if, at the time of purchase, more than 20% of the Fund's assets are rated CCC or lower.

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 further information about your Fund, 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.

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Performance highlights (unaudited)

Investment objective

The Fund seeks a high level of current income and moderate capital growth, with an emphasis on providing tax-advantaged dividend income.

Adviser

Wells Fargo Funds Management, LLC

Subadvisers

Crow Point Partners, LLC

Wells Capital Management Incorporated

Portfolio managers

Niklas Nordenfelt, CFA®

Timothy P. O'Brien, CFA®

Phillip Susser

Average annual total return (%) as of August 31, 2016¹

	1 year	5 year	10 year
Based on market value	27.83	11.22	4.34
Based on net asset value (NAV) per share	10.35*	9.51	4.34

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 August 31, 2016, was 1.19% which includes 0.21% of interest expense.

Comparison of NAV vs. market value²

High-yield, lower-rated bonds may contain more risk due to the increased possibility of default. Foreign investments may contain more risk due to the inherent risks associated with changing political climates, foreign market instability, and foreign currency fluctuations. Risks of international investing are magnified in emerging or developing markets. Funds that concentrate their investments in a single industry or sector may face increased risk of price fluctuation due to adverse developments within that industry or sector. Small- and midcap securities may be subject to special risks associated with narrower product lines and limited financial resources compared with their large-cap counterparts. The use of leverage results in certain risks including, among others, the likelihood of greater volatility of net asset value and the market price of common shares. Derivatives involve additional risks, including interest-rate risk, credit risk, the risk of improper valuation, and the risk of noncorrelation to the relevant instruments they are designed to hedge or to closely track. There are numerous risks associated with transactions in options on securities. Illiquid securities may be subject to wide fluctuations in market value and may be difficult to sell. 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.

*Total return reflects litigation payments received during the year. Excluding the payments, the total return would have been 9.74%.

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Performance highlights (unaudited)
MANAGERS DISCUSSION

Wells Fargo Utilities and High Income Fund 5

The Fund's return based on its market value was 27.83% for the 12-month period that ended August 31, 2016. During the same period, the Fund's return based on its net asset value (NAV) was 10.35%. Based on its NAV return, the Fund underperformed relative to the ERH Blended Index³ which returned 17.19%.

Overview

During the reporting period, the Fund's utilities holdings delivered weak results relative to the S&P 500 Utilities Index.⁴ Some of the utilities positions were preferred stocks, which supported the Fund's income generation but lagged in terms of total return. Also, European and Canadian utilities stocks held in the Fund underperformed their U.S. peers. Energy holdings detracted from returns as well.

While the high-yield bond market delivered a positive return for the 12-month period overall, the path to that result was somewhat volatile. High-yield bonds delivered negative monthly results for the first five months of the reporting period, driven largely by depressed energy prices and other commodity-related issues; downgrades of large, investment-grade issuers into high-yield territory aggravated the decline. The high-yield market bounced back in mid-February 2016 and delivered positive monthly results for the remaining seven months of the period as commodity prices began to stabilize and improve and the issuer downgrades were absorbed by the high-yield market.

Detractors from performance

Among the Fund's utilities holdings, The Williams Companies, Incorporated, detracted significantly from performance. In addition to being pressured by depressed oil and gas prices early in the period, the company suffered other setbacks, including news that its expected acquisition by Energy Transfer Equity, L.P., had fallen through. Vivendi S.A. was a notable detractor as well. Both The Williams Companies and Vivendi were sold from the Fund during the period. Also, the Fund's holdings of cash and preferred stocks materially detracted from results as investors demonstrated their preference for common stocks within the utilities sector.

Within the Fund's allocation to high-yield bonds, the largest detractor from relative performance was an underweight to the metals and mining sector. Many companies that were downgraded from investment-grade to below-investment-grade during the period were in this sector, and they rebounded after being added to the high-yield bond index. Exposure to the electric utility and cable and satellite sectors also detracted from performance. The ratings distribution and maturity profile of the Fund's high-yield bond allocation had a slightly negative effect on results as well.

Ten largest holdings (%) as of August 31, 2016⁵

Enel SpA	4.59
Red Electrica Corporacion SA	4.39
Enagas SA	4.36
Eversource Energy	4.12
American Electric Power Company Incorporated	3.84
Edison International	3.70

Chunghwa Telecom Company Limited ADR	3.65
NextEra Energy Incorporated	3.59
American Water Works Company Incorporated	3.14
Endesa SA	3.11

Credit quality as of August 31, 2016⁶

³ Source: Wells Fargo Funds Management, LLC. The ERH Blended Index is weighted 70% S&P 500 Utilities Index and 30% BofA Merrill Lynch U.S. High Yield Index (formerly known as BofA Merrill Lynch High Yield Master II Index). The BofA Merrill Lynch U.S. High Yield Index is a market-capitalization-weighted index of domestic and Yankee high-yield bonds. The index tracks the performance of the high-yield securities traded in the U.S. bond market. You cannot invest directly in an index.

⁴ The S&P 500 Utilities Index is a market-value-weighted index that measures the performance of all stocks within the utilities sector of the S&P 500 Index. You cannot invest directly in an index.

⁵ 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.

⁶ 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.

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Contributors to performance**

Performance highlights (unaudited)

Notable contributors to performance among the Fund's utilities stocks included American Water Works Company, Incorporated; American Electric Power Company, Incorporated; and Edison International. Shenandoah Telecommunications Company also significantly benefited results; the company's stock was up more than 30% year over year, despite declining sharply following a weak report for the second quarter of 2016.

The Fund's allocation to high-yield bonds benefited from a meaningful overweight to the midstream industry and solid security selection within that industry. Exposure to the health care and information technology industries contributed positively as well. Although positioning was unfavorable in the energy exploration and production and oilfield-services sectors, performance by the Fund's holdings within those sectors largely offset the impact of the positioning.

Country allocation as of August 31, 2016⁷

Management outlook

With regard to the Fund's allocation to utilities stocks, we are seeing what appears to be a more solid and accelerating economic recovery in the U.S. In our view, shorter-term interest rates could soon rise. However, the outlook for 10-year interest rates, which are highly correlated with the dividend yields of utilities stocks, is less clear to us. Stronger economic growth may be positive for utilities suffering from weak sales, while higher interest rates could provide a near-term challenge for utilities stocks. Over the longer term, fundamentals for

operators of regulated utilities appear robust. The outlook for utilities with significant exposure to commodities prices, however, remains challenging.

With respect to the broad high-yield market, we believe high-yield bonds may remain relatively stable and potentially outperform other fixed-income asset classes that may be more affected by a rising-interest-rate environment. While default rates rose over the reporting period, most of the increase was concentrated in the energy and commodities industries. Bankruptcies likely will remain concentrated in those industries in the near term; however, many of the weakest companies already have filed for bankruptcy. In the long run, we expect the relative performance of high-yield bonds will be driven primarily by corporate fundamentals and defaults. In the near term, our default outlook remains fairly benign, with the exception of the energy sector and other commodities sectors. Over a full cycle, we believe the best way to protect the Fund's high-yield bond allocation from periodic bouts of systemic fears and rebalancing is by following a bottom-up investment process that attempts to minimize downside risk and capture the return potential of high-yield issuers.

⁷Amounts are calculated based on the total long-term investments of the Fund. These percentages are subject to change and may have changed since the date specified.

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Summary portfolio of investments August 31, 2016

Wells Fargo Utilities and High 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	Shares	Value	Percent of net assets
Common Stocks: 66.82%			
Energy: 2.30%			
Oil, Gas & Consumable Fuels: 2.30%			
<i>Spectra Energy Corporation</i>	75,000	\$ 2,671,500	2.27%
<i>Other securities</i>		33,385	0.03
		2,704,885	2.30
Telecommunication Services: 11.81%			
Diversified Telecommunication Services: 9.85%			
<i>CenturyLink Incorporated #</i>	75,000	2,085,000	1.77
<i>Chunghwa Telecom Company Limited ADR</i>	120,000	4,302,000	3.65
<i>Orange SA</i>	200,000	3,054,103	2.59
<i>Verizon Communications Incorporated</i>	41,291	2,160,758	1.84
		11,601,861	9.85
Wireless Telecommunication Services: 1.96%			
<i>Shenandoah Telecommunications Company</i>	90,000	2,314,800	1.96
Utilities: 52.71%			
Electric Utilities: 39.91%			
<i>American Electric Power Company Incorporated</i>	70,000	4,519,900	3.84

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<i>Duke Energy Corporation</i>	30,514	2,430,745	2.06
<i>Edison International</i>	60,000	4,363,200	3.70
<i>Endesa SA</i>	180,000	3,666,262	3.11
<i>Enel SpA</i>	1,225,000	5,408,316	4.59
<i>Eversource Energy</i>	90,000	4,857,300	4.12
<i>Exelon Corporation</i>	16,000	544,000	0.46
<i>Great Plains Energy Incorporated</i>	100,000	2,716,000	2.31
<i>IDACORP Incorporated</i>	25,000	1,901,750	1.62
<i>NextEra Energy Incorporated</i>	35,000	4,232,900	3.59
<i>PNM Resources Incorporated</i>	75,000	2,384,250	2.02
<i>Red Electrica Corporacion SA</i>	240,000	5,168,104	4.39
<i>Spark Energy Incorporated Class A</i>	36,700	1,063,933	0.90
<i>Terna SpA</i>	650,000	3,358,398	2.85
<i>Other securities</i>		400,895	0.35
		47,015,953	39.91
Gas Utilities: 4.39%			
<i>Enagas SA</i>	175,000	5,138,740	4.37
<i>Other securities</i>		25,328	0.02
		5,164,068	4.39
Multi-Utilities: 5.27%			
<i>CenterPoint Energy Incorporated</i>	50,000	1,123,500	0.95
<i>Hera SpA</i>	300,000	831,234	0.71

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

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8 Wells Fargo Utilities and High Income Fund

Summary portfolio of investments August 31, 2016

Security name	Shares	Value	Percent of net assets
Multi-Utilities (continued)			
<i>Public Service Enterprise Group Incorporated</i>	50,000	\$ 2,138,000	1.81%
<i>Sempra Energy</i>	19,900	2,082,137	1.77
<i>Other securities</i>		34,033	0.03
		6,208,904	5.27
 Water Utilities: 3.14%			
<i>American Water Works Company Incorporated</i>	50,000	3,699,500	3.14
Total Common Stocks (Cost \$60,295,682)		78,709,971	66.82