

Portfolio Manager Commentary

Overview, Strategy, and Outlook, as of December 31, 2009

December was a very quiet month, with many market participants and issuers more than ready to say goodbye to 2009.

Surveying the Landscape

December is traditionally a quiet month, as both market participants and issuers attempt to close their books and celebrate the holidays. This month was perhaps quieter than usual. The lack of supply that we've been writing about was even more pronounced toward the end of the month. Many issuers of money market instruments completed their issuance by mid-December and were totally out of the market for the last two weeks of the year. At the same time, market participants had to balance their need for liquidity with their desire to have uninvested funds on hand as the year closed. Though we've been able to find sufficient suitable investments to keep our funds invested and adequately diversified during this period, it has been a bit of a struggle. Yields in the taxable markets certainly reflected the imbalance between supply and demand as they reached zero in the closing days of the month. With proposed amendments to Rule 2a-7 mandating that money funds keep certain amounts in overnight investments, we would not be surprised if this supply problem were more acute next year should the Rule be amended as proposed.

Looking back at the year, total U.S. money fund assets declined by 13% in 2009, falling from \$3.74 trillion at the end of 2008 to \$3.27 trillion at the end of 2009. Fluctuation within the types of money fund strategies varied widely, however. Pure Treasury money funds plummeted 44%, while prime money market funds increased ever so slightly. Clearly, money fund investors moved out the risk curve over the year. There was also a marked difference in flows depending on the type of investor. The assets of retail money funds fell 21%, while institutionally oriented money funds were down only 8%. Looking at the strong flows into stock and bond mutual funds, it would seem that retail investors moved into those funds and out of money funds, while institutional investors, being oriented toward liquidity and more risk-averse, limited their risk-taking to moves from government strategies to prime money funds.

MONEY MARKET INDUSTRY FLOWS

By Channel and Category

Channel Assets (\$Billion)	12-31-2008	12-31-2009	\$ Change	% Change
All Institutional	\$2,388	\$2,206	-\$182	-8%
All Retail	\$1,356	\$1,068	-\$288	-21%
Total	\$3,744	\$3,274	-\$470	-13%

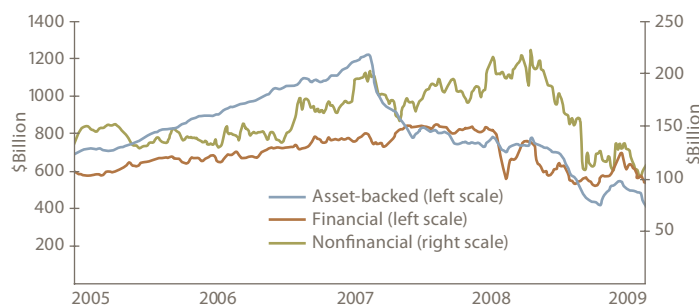
Category Assets (\$Billion)	12-31-2008	12-31-2009	\$ Change	% Change
All Prime	\$1,769	\$1,789	\$20	1%
All Government & Agencies	\$788	\$656	-\$132	-17%
All Treasury & Repo	\$316	\$218	-\$99	-31%
All Treasury	\$379	\$213	-\$166	-44%
All Tax-Free National	\$343	\$289	-\$54	-16%
All Tax-Free State	\$149	\$109	-\$40	-27%
Total	\$3,744	\$3,274	-\$470	-13%

Source: iMoneyNet

At the same time, the supply of investments remains scarce. The total amount of commercial paper (CP) outstanding decreased in December, closing the month at \$1,147.7 billion, down from \$1,195.8 billion at the end of November and \$1,229.1 billion at mid-year. Asset-backed commercial paper outstandings continued to plummet, falling from \$523.5 billion at the end of June to \$470.7 billion at year-end. Notably, the portion of this outstanding commercial paper that was actually available for purchase during the month was much less than the outstandings might indicate, as issuers funded their maturities into paper that matured in 2010.

COMMERCIAL PAPER OUTSTANDING

Weekly (Wednesdays), Seasonally Adjusted



Source: Federal Reserve Bank of New York

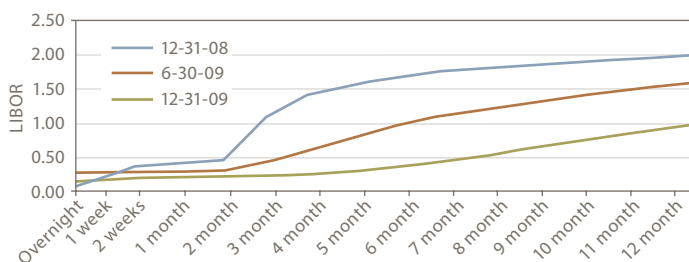
(Continued on the next page.)

Strategies for the Prime Markets Section

Rates on overnight investments, such as bank time deposits and repurchase agreements, continued to track the effective federal funds rate, which has traded below the federal funds target every day since October 2008. Demand has remained strong for overnight investments, even at these low rates, because the supply of alternatives like discount notes and commercial paper has shrunk so materially. For most of December, overnight rates were in the low teens in basis points (bps) terms and dropped to low single digits the last two days of the month. The lack of supply, coupled with issuers being funded over the turn of the year, made investing interesting on New Year's Eve. Because of the FDIC charge on balances left at banks, market participants were quite eager to get maturities invested over year-end. Money funds in particular had to have enough of the portfolio maturing to satisfy any shareholder redemptions, requiring them to compete for acceptable investments as the day wore on. Early in the day, repurchase agreements traded at zero (0.00%). Then toward the end of the day, banks were taking deposits if the investor paid them.

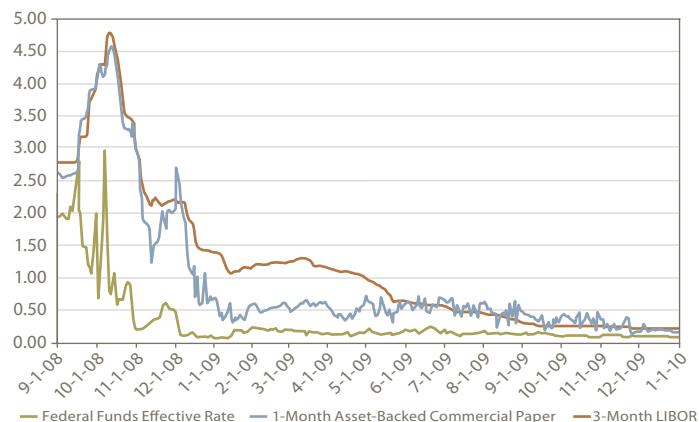
The short end of the London Interbank Offered Rate (LIBOR) curve saw little movement from last month as one- and three-month levels closed the month at 0.23% and 0.25%, respectively. Longer LIBOR levels were down again but at a much slower pace from last month. Six-month LIBOR was down six bps to 0.43%. One-year LIBOR hit an all-time low of 0.96% mid-month, closing down four bps for the month at 0.98%.

LIBOR YIELD CURVE COMPARISON



Source: Bloomberg LP

HISTORICAL INTEREST RATES, SEPTEMBER 2008 THROUGH DECEMBER 2009



Source: Bloomberg LP

With one- and three-month LIBOR levels essentially flat, we have maintained our 20% to 25% exposure to the floating-rate note sector by investing in securities that reset off one-month LIBOR as our quarterly resets mature. The monthly resets will more quickly reflect any increase in the levels of interest rates.

Our focus remains on liquidity and maintaining a stable \$1.00 net asset value (NAV). In our prime category money market funds, we have been able to use our highly liquid position to selectively purchase longer-dated investments. Most of our short-term investments have been made in the one- to three-month maturity sector, with some selected purchases in longer-dated paper, where those investments are consistent with the primary objectives of the funds. Rates in the one- to three-month taxable sector are compressed at +/- 0.20%. One-month rates are slightly lower. Three-month rates are slightly higher. Rates on municipal variable-rate demand notes are also compressed around 0.20%. As supply comes into the secondary market we have been able to add to our holdings in that sector. While we have increased the weighted average maturities of our portfolios somewhat, they remain well below the industry average of 47 days in institutional prime funds and 59 days in retail prime funds.

Strategies for the U.S. Government Markets

As expected, demand for U.S. Treasury bills (T-bills) remained quite strong during the last month of the year. Many investors sought the safety and liquidity T-bills provide as a means of getting cash invested over year-end. As a result, the short end of the yield curve experienced the greatest amount of richening. Yields on T-bills maturing in January and February 2010 approached 0%. It certainly did not help that the available supply of T-bills continued to shrink as the month progressed. The amount of T-bills maturing during the month exceeded the new amount issued by the U.S. Treasury by \$28 billion. Adding to this supply pressure was the paring back of the balance sheet by the dealer community. By year-end, many dealers did not have any inventory to offer in any product, including T-bills, making it even more difficult to invest cash as the month drew to a close.

With a majority of the focus being on T-bills maturing within the first few months of the New Year, the yield curve actually steepened as demand for longer-dated maturities waned. Many participants needing or wanting T-bills maturing six months and longer did most of their investing either in November or the very early part of December. Demand for these maturities all but dried up in the later half of the month.

(Continued on the next page.)

Yields at the end of December on T-bills maturing one to three months were basically unchanged from the prior month, yielding anywhere from 0.02% to 0.06%. However, these T-bills did trade as low as 0% intra-month when demand was at its strongest. The yield on six-month T-bills rose four bps to 0.14% from 0.10%, while the yield on one-year T-bills rose 21 bps to 0.43% from 0.22%.

Our focus in the *Wells Fargo Advantage 100% Treasury Money Market Fund* has been to ladder maturities across the yield curve in an effort to provide liquidity and maintain a stable \$1.00 NAV. In the *Wells Fargo Advantage Treasury Plus Money Market Fund*, we have emphasized U.S. Treasury-backed repurchase agreements, which offer price stability and daily liquidity at a higher yield than T-bills.

Yields on government-sponsored enterprise (GSE) discount notes followed a pattern very similar to that discussed above in the T-bill market. Market participants continued clamoring for securities maturing in early 2010 to reduce the reinvestment risk possibilities expected in late December. However, because both Fannie Mae and Freddie Mac issued a large amount of early 2010 discount notes back in November, their needs in December were very light, driving already low yields even lower. What little new supply came to market in December was immediately devoured by investors with insatiable appetites.

Further exacerbating the issue is the continual decline in overall discount note issuance and outstandings. Outstanding discount notes are down over 42% since the beginning of the year. Additionally, the GSEs continue to issue longer-term debt, beyond the maximum maturity permitted for money market funds, as this longer-term funding is more advantageous for them.

However, what was different in December versus prior months was the lack of demand further out on the yield curve. In October and November, when shorter-dated maturities became scarce, investors pushed further out on the curve to find investments and incremental yield pick-up. This did not seem to be the case in December. Rather, investors not able to find short-dated discount notes turned to other markets to find investments that would mature early in 2010, such as T-bills and commercial paper. Because of this, the discount note yield curve steepened, similar to what we witnessed with the T-bill yield curve.

The yield on one-month discount notes fell to as low as 0% during the month but ultimately finished the month only

down one bp, to 0.03% from 0.04%. Yields on three-month discount notes rose two bps, from 0.07% to 0.09%, while six-month notes rose five bps to 0.21% and one-year notes rose 20 bps to 0.40%. Our focus in the *Wells Fargo Advantage Government Money Market Fund* has been on liquidity and a stable \$1.00 NAV. Most of our investments have been in FDIC-guaranteed debt issued under the Temporary Liquidity Guarantee Program and three- to six-month GSE debt, which is consistent with the primary objectives of the funds.

Strategies for the Tax-Exempt Markets

Similar to November, outflows from the tax-exempt money market funds in December were mixed. Institutional and retail investors moved money around as year-end approached. A combination of repositioning and window dressing was most likely the main reason for the movement. Generally speaking, money continued to leave tax-exempt money market funds, ending 2009 with a decrease of \$92.2 billion (18.7%). Much of the decrease can be attributed to municipal investors moving into longer municipal bond funds (+\$118 billion) in an attempt to increase their tax-exempt income.

Historically, the Securities Industry and Financial Markets Association Municipal Swap Index would back up at year-end as broker/dealers attempt to avoid inventory build up. We did not see this at 2009 year-end as lack of supply continued to keep short-term municipal security yields at historical lows. For 2009, bank-supported municipal variable-rate demand instruments issuance was down 71% when compared with 2008. Despite low absolute rates for short-term municipal securities, they still looked attractive on a relative basis when compared with similar taxable securities, thus exacerbating the supply issue.

The general strategy across all tax-exempt money market funds continues to remain relatively short to our peer group, with a focus on floating-rate securities. With absolute rates at historical lows and a flat yield curve, extension trades have not made a lot of sense. Throughout the month, however, there have been a few cases where we have added positions in smaller municipal note issues that are high in credit quality and offer attractive yield.

The Inside Track

Because statements released after the last several Federal Open Market Committee meetings indicate that money market rates will remain low for "an extended period," we would expect this rate environment to persist into 2010. The question is how long into 2010? Other central banks are

already beginning to raise their rates and the U.S. economy shows some promise of recovery. Looking at the federal funds futures market as one indicator, activity in that market would indicate a better-than-ever chance that the federal funds rate will be hiked to 50 bps by mid-year, and to 1.00% by the end of 2010. Some economists are predicting an even more aggressive pattern of tightening by the Fed.

Clearly, the risks of rising rates outweigh the near impossibility of further declines, since we are at or near zero already. Since the timing of changes in the direction

of interest rates is always quite unpredictable, the prudent course is to plan for that event now. As a result, we continue to maintain comparatively liquid and short portfolio structures designed to achieve our primary objectives of a stable \$1.00 NAV and liquidity for shareholders.

For more information, please contact:

Institutional Sales Desk

Web Site

1-888-253-6584

www.wellsfargo.com/advantagefunds

Click Institutional Cash Management.

Click here for current money market fund performance.

Click here to view a list of complete holdings.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Wells Fargo Advantage Money Market Funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.

A portion of the Fund's income may be subject to federal, state, and/or local income taxes or the alternative minimum tax (AMT). Any capital gains distributions may be taxable. The U.S. government guarantee applies to certain underlying securities and not to shares of the Fund.

The views expressed are as of December 31, 2009, and are those of David D. Sylvester, head of Money Markets at Wells Capital Management, subadvisor to the Wells Fargo Advantage Money Market Funds and Wells Fargo Funds Management, LLC. The views are subject to change at any time in response to changing circumstances in the market and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally, or any Wells Fargo Advantage Fund.

*Carefully consider the investment objectives, risks, charges, and expenses before investing. For a current prospectus for **Wells Fargo Advantage Funds**[®], containing this and other information, visit www.wellsfargo.com/advantagefunds. Read it carefully before investing.*

Wells Fargo Funds Management, LLC, a wholly owned subsidiary of Wells Fargo & Company, provides investment advisory and administrative services for *Wells Fargo Advantage Funds*. Other affiliates of Wells Fargo & Company provide subadvisory and other services for the Funds. The Funds are distributed by **Wells Fargo Funds Distributor, LLC**, Member FINRA/SIPC, an affiliate of Wells Fargo & Company. 119717 01-10

NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE