

Portfolio Manager Commentary

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

August was another quiet month, and the second anniversary of the onset of the unprecedented liquidity and credit crisis passed with little fanfare. After two years of credit deterioration and uncertainty, we feel reasonably comfortable in saying that the worst is now behind us.

As issuers were able to secure longer term financing, the supply in the money markets continued to contract. With the amount of commercial paper, top quality CDs, Federal agency discount notes, U.S. Treasury bills, and repurchase agreements all having declined this year, it has become increasingly difficult for money funds to find suitable, high-quality investments for their portfolios. It is not an impossible task, but the dwindling availability of these investments has made those that are on hand relatively more expensive.

All of this—the contraction of supply and credit quality spreads—is a positive development from a systemic standpoint and has contributed to the general healing in the capital markets. But it has contributed to a further decline in the already low yields available on money funds. As money fund yields have decreased, investors' risk appetites appear to have increased, and many investors have moved up in risk and longer in term to maturity.

Surveying the Landscape

With the improvement in the markets, the programs designed last fall to support the money markets continued to decline in importance. The main programs in this sector are the Commercial Paper Funding Facility (CPFF) and the Asset-Backed Commercial Paper Money Market Mutual Fund Lending Facility (AMLF).

Commercial paper held by the Fed through the CPFF fell 29% from \$63 billion at the end of July to less than \$45 billion at the end of August. The amount owned through CPFF peaked at \$350 billion on January 21, 2009. As the use of this facility steadily declines, we take that as confirmation that those issuers who continue to issue through CPFF at this point do so because their programs have lost investor support and they lack alternative methods for restructuring and financing their needs.

The use of the AMLF, which allows money market funds to sell asset-backed commercial paper (ABCP) to be pledged at the Fed, has for all practical purposes halted. The AMLF balance fell to only \$79 million at the end of August. At its peak last

October, balances in the AMLF stood at over \$150 billion. Because the Fed has now limited the use of this facility to only those funds that experience a high level of shareholder redemptions, we would not expect to see any significant use of this facility.

We expect that both of these programs will be allowed to expire in their present forms as scheduled on February 1, 2010.

The U.S. Treasury Temporary Guarantee Program for Money Market Funds¹ is scheduled to expire on September 18, 2009. Originally announced at the height of the credit crisis last September, the program guaranteed to shareholders any shortfall in the \$1.00 net asset value (NAV) in the event that a fund was to liquidate. No fund has had to call on the guarantee for its shareholders during the program. The program was extended for the final time on March 31. At the time of the final extension, a number of funds that were invested primarily in U.S. Treasury securities, including some of the Wells Fargo Advantage Funds®, chose not to participate in the program, citing the safety and security of the securities in which the

1. Certain Details of the Program: The U.S. Treasury Temporary Guarantee Program provides a guarantee to participating money market mutual fund shareholders based on the number of shares invested in the fund at the close of business on September 19, 2008. Any increase in the number of shares an investor holds after the close of business on September 19, 2008, will not be guaranteed. If a customer closes his/her account with a fund or broker/dealer, any future investment in the fund will not be guaranteed. If the number of shares an investor holds fluctuates over the period, the investor will be covered for either the number of shares held as of the close of business on September 19, 2008, or the current amount, whichever is less. The program expires on September 18, 2009. [Click here](#) for additional details of the Program.

funds invested. Now that credit and market conditions have improved, the need for the program has passed. We believe that shareholders should view the end of the program as a confirmation of the return to normalcy in the money markets. We note that unlike many of the support programs that were devised during the credit crisis, the Temporary Guarantee Program has actually been a profitable venture for the U.S. Government in that it collected premiums for the guarantees but currently has not paid one cent in claims.

We continue to see that investors' tolerance for risk is increasing. Flows across all money market funds are one indication, as are strong flows into bond and stock funds, the resurgence of the new issue debt market, and the narrowing spreads in the below investment grade sector of the fixed-income markets.

The assets of Treasury and Treasury & Repo money funds have decreased significantly this year, falling 40% and 28%, respectively, while the assets of Prime money funds are up 6%. Assets in Government & Agency money funds have also been declining and are down 7% year-to-date. Overall, money fund assets have declined 6% this year.

Retail investors are moving more assets out of money funds than institutions. Retail money fund assets are now down 14% year-to-date, while the assets of institutional funds are down only 2%. Also contributing to the decline in retail money fund assets is a corresponding increase in insured bank deposits.

MONEY MARKET INDUSTRY FLOWS

By Channel and Category

Channel Assets (\$Billion)	12-31-2008	8-31-2009	\$ Change	% Change
All Institutional	\$2,388	\$2,347	-\$41.13	-2%
All Retail	\$1,356	\$1,160	-\$195.32	-14%
Total	\$3,744	\$3,507	-\$236.45	-6%
Category Assets	12-31-2008	8-31-2009	\$ Change	% Change
All Prime	\$1,769	\$1,883	\$114.67	6%
All Government & Agencies	\$788	\$729	-\$58.78	-7%
All Treasury & Repo	\$316	\$228	-\$88.14	-28%
All Treasury	\$379	\$226	-\$153.03	-40%
All Tax-Free National	\$343	\$321	-\$22.42	-7%
All Tax-Free State	\$149	\$121	-\$28.16	-19%
Total	\$3,744	\$3,507	-\$236.45	-6%

Source: iMoneyNet

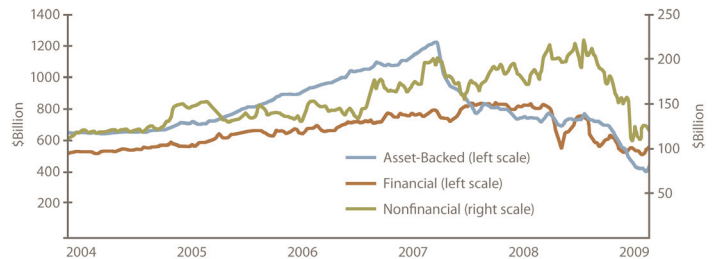
Strategies for the Prime Markets Section

Rates on overnight investments, such as bank time deposits and repurchase agreements, continued to track the effective federal funds rate, which has been trading below the Fed funds target of 0.25%. 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. Year-to-date, total commercial paper outstanding has fallen over 30% to \$1.15 trillion from \$1.66 trillion on December 31, 2008. Reversing an eight-

month trend, there was growth in the total amount of commercial paper outstanding, driven by the financial sector in August. Total commercial paper outstanding grew by just under 6% to \$1.15 trillion. Total ABCP outstanding fell again, however, to \$457.8 billion, which is down over 60% from more than \$1.2 trillion at its peak in August 2007.

COMMERCIAL PAPER OUTSTANDING

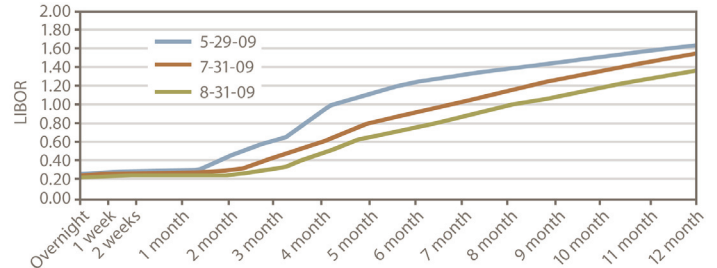
Weekly (Wednesdays), Seasonally Adjusted



Source: Federal Reserve Board

The London Interbank Offered Rate (LIBOR) declined again this month. Three-month LIBOR fell 13 basis points (bps) to end the month at 0.35%. Six-month and one-year LIBOR both declined by 17 bps to close the month at 0.76% and 1.33%, respectively.

LIBOR CURVE COMPARISON



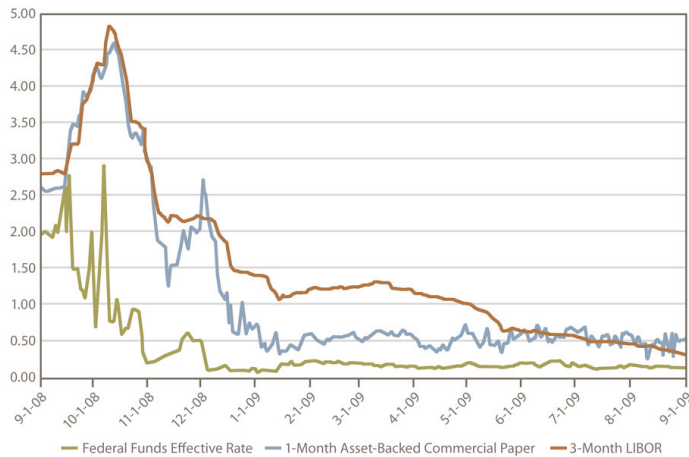
Source: Bloomberg LP

In part, the shrinking commercial paper market can be attributed to an increase in long-term debt issuance. With interest rates at attractive levels, issuers have chosen to lock in the certainty of long-term funding at pretty reasonable rates. With money market rates at record lows, these long-term bond issues have found willing buyers who are ready to extend maturities in return for a little extra yield. Supply is also contracting as a natural part of the economic cycle. When the pace of economic activity is low, inventories contract, and the total amount of receivables to be financed declines; therefore, issuers have less need for short-term borrowings.

Over the long term, the implication of declining supply is that money funds and other short-term market participants may find it increasingly difficult to purchase acceptable investments and to sufficiently diversify a fund's investments.

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HISTORICAL INTEREST RATES, SEPTEMBER 2008 THROUGH AUGUST 2009



Source: Bloomberg LP

Our focus remains on liquidity and seeking to maintain a stable \$1.00 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. While we have increased the weighted average maturity of our portfolios somewhat, they remain well below the industry average of 49 days in institutional prime funds and 60 days in retail prime funds.

Strategies for the U.S. Government Markets

Demand for U.S. Treasury bills (T-bills) remained robust during the month. However, unlike last month where most of the demand lay within the belly of the curve, this month witnessed good sponsorship across the entire yield curve. Lack of supply in other asset classes prompted solid buying in one-month T-bills, as investors looked for a place to invest cash in the short term in hopes that supply might improve at a later time. Other investors, including money funds, were focused more in the three- to six-month part of the curve in an attempt to pick up incremental yield without extending average maturities too long. Further out, the curve saw good buying by central banks and the like, those without maturity restrictions who could find the highest absolute yields available in the six- to twelve-month part of the curve. Total outstandings remained relatively unchanged during the month, at just under \$2.1 trillion, further exacerbating the decline in yields, which fell anywhere from three to five bps from the end of July. For example, three-month T-bills yielded 0.13% at month-end versus 0.17% on July 31, and one-year T-bills yielded 0.41% versus 0.46% the prior month. 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 the same trend as T-bills and fell throughout the month. Similar to the discussion above, the entire discount note yield curve witnessed decent demand as a variety of investors focused on different parts of the curve. Those with more risk aversion, or who experienced trouble finding supply in other asset classes, focused on the one-month sector. The belly of the curve saw demand from investors looking to pick up incremental yield but might have restrictions prohibiting them from investing in the longer tenures. Others, including broker-dealers and those employing more of a barbell strategy, found the most value further out on the curve in the twelve-month area. Couple this demand with a continuing decline in supply (total discount notes outstanding are down some 30% year-to-date), and it's easy to see why yields are trending downward. In addition, the GSEs continue to fund further out on the yield curve, beyond money market fund vehicles, characterized as funds that are regulated under Rule 2a-7 of the Investment Company Act of 1940, where funding is more advantageous for them. The yield on one-month discount notes fell three bps, from 0.15% to 0.12%, while three-month notes also fell three bps to 0.17%, and one-year notes fell six bps to 0.45%. 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 (TLGP) and three- to six-month GSE debt, which is consistent with the primary objectives of the funds.

Strategies for the Tax-Exempt Markets

August was a quiet month, as the same themes continue to repeat month after month. Rates on variable rate demand notes (VRDN) continue to be higher than short taxable rates, and that gap increased during the month. After falling to 0.35% (127% of one-month LIBOR) in the first week of the month, the Security Industry and Financial Markets Association Muni Swap Index jumped to 0.43% (157% of one-month LIBOR) in the second week and ended the month at 0.39% (150% of one-month LIBOR). From a participant's view of the market, the rise in VRDN rates did not seem warranted. While overall flows in tax-exempt money markets continued to be negative, the higher rates did attract institutional

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money to general market funds. Also, the supply/demand imbalance continues to be severe as paper sold by funds to cover redemptions quickly finds other buyers. The rise in the index most likely had to do with technical factors involving securities included in the calculation. Spreads on paper with credit exposure to banks, such as SunTrust, have come in from their very wide levels seen earlier this year. Such paper, while still much cheaper than other widely approved banks, would now be included in the calculation once again, as it would no longer be considered an outlier.

The state of Texas issued its Tax and Revenue Anticipation Notes at the end of the month. The one-year \$5.5 billion issue was well received, with most of the notes selling at a yield to maturity of less than 0.47%. While direct investor demand at the time of pricing may not have warranted this pricing, participants in the dealer community bought large amounts of the deal for their own books in anticipation of money funds' potentially needing to pay a higher price near the issue's settlement date.

The Inside Track

We see continued improvement in the stability of the financial markets. As investors have regained confidence, their willingness to extend credit to issuers for longer periods of time has been an important part of this healing process. This is no time to get overly confident, however. As the supply of high-quality investments decreases, and as credit quality spreads continue to narrow, money funds are challenged to find a diversified and high-quality base of investments from which to choose. Some may choose to take outsized risks in order to achieve higher yields. That is not the path we will take.

We are committed to meeting the challenges presented by changing market conditions, mindful that our highest priorities are to meet liquidity demands of our shareholders in an effort to provide principal protection through a stable \$1.00 NAV. To that end, we will pursue a conservative investment strategy that emphasizes high credit quality, liquidity, and a comparatively short weighted average maturity.

For more information, please contact:

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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 of the underlying securities and not to shares of the Fund.

The views expressed are as of August 31, 2009, and are those of David D. Sylvester, portfolio manager, Money Market team 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.

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