Portfolio Manager Commentary

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

As rates have declined, issuers have been able to extend the maturity of their debt issuance. While this is positive from a macroeconomic perspective, it has led to a shortage of high-quality, short-term, liquid investments in which money funds must invest. Potential accounting changes may further exacerbate this supply problem. One alternative route to find investments and boost paltry yields has been to extend the maturity of fund investments. But with early signs of economic recovery and monetary tightening on the global horizon, this alternative is fraught with potential risk.

Surveying the Landscape

The lack of supply is one of the dominant topics of conversation in the money markets. Issuers have found it both desirable and possible to extend the term of the debt issuance into the longer part of the money market curve and into the bond markets. A conflict exists as regulators overseeing the issuers are encouraging them to issue longer, while potential new money fund regulations encourage money funds to stay short in order to boost liquidity. At this point, over 20% of the commercial paper (CP) outstanding has been funded into 2010. As a result, these issuers will have no need to issue paper for the remainder of this year.

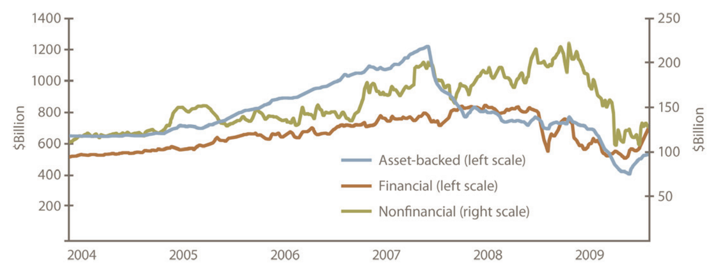
One of the major contributors to the improvement in the financial markets continues to be market participants' willingness to take more risk, especially in terms of the duration of their investments. By moving down in quality and out longer in maturity, market participants are extending credit in areas where previously only central banks and governments would lend. This has opened up areas of the capital markets to borrowers and enabled them to build healthier balance sheets, thus improving the overall credit environment.

While the amount of commercial paper outstanding grew again in October on a seasonally adjusted basis, outstandings were basically unchanged for the month on a non-adjusted basis. Year to date, total outstandings are still down by 17% to $1,377 billion at the end of October from $1,658.7 billion on December 31, 2008. Current outstandings are now at levels that approach those last seen in the late 1990s.

Most of the recent growth in the CP market has taken place in the financials sector. The amount of asset-backed commercial paper (ABCP) outstanding is still well below half of the peak amount seen at the zenith in the summer of 2007.

COMMERCIAL PAPER OUTSTANDING

Weekly (Wednesdays), Seasonally Adjusted



Source: Federal Reserve Board

Potential changes to the accounting treatment of asset-backed securities (ABS) threaten to drop ABCP outstandings even further. On June 12, 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 166, Accounting for Transfers of Financial Assets—an amendment to SFAS 140—and SFAS 167, Amendment to FASB Interpretation No. 46(R), together FAS 166/167. These standards will come into effect next year and will change accounting for securitizations and off-balance-sheet financing. The impact of both FAS 166 and 167 will make off-balance-sheet treatment of ABS and ABCP more difficult to achieve. Many existing ABCP conduits and ABS will be consolidated onto the balance sheet of the sponsoring financial institution. This consolidation of assets to the balance sheet will have several likely effects on the short-term fixed-income markets.

The ABCP and ABS markets will most likely continue to shrink with fewer transactions, as the economics for domestic financial institutions become less attractive to finance assets off the balance sheet. Direct bank issuance will likely increase,

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since these financial institutions will have larger balance sheets from accounting consolidation. This accounting change is for U.S. Generally Accepted Accounting Principles filers or domestic firms only and may create opportunities for institutions that do not operate under the U.S. accounting and capital regimes. The anticipated effects from implementing these accounting changes are evident already as ABCP outstandings have continued to be on a steady decline.

With the improvement in the tone of the markets, the programs designed last fall to support the money markets continue 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 a stunning 60% from $36.8 billion at the end of September to $14.5 billion at the end of October, having peaked at $350 billion on January 21, 2009. The use of the AMLF, which allows money market funds to sell ABCP to be pledged at the Fed, has for all practical purposes halted because the Fed has now limited the use of this facility to only those funds that experience a high level of shareholder redemptions. The AMLF dropped to zero at the end of October, versus $79 million at the end of September. At its peak last October, balances in the AMLF stood at over $150 billion. With only about 1% of the total CP now owned by the Fed, we expect that both of these programs will be allowed to expire in their present forms as scheduled on February 1, 2010.

Flows between types of money market funds continue to be an indication of investors' increased appetite for risk, 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.

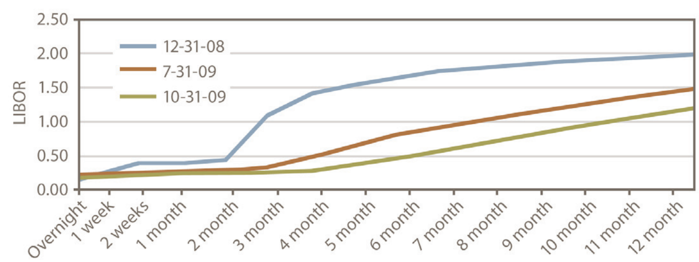
Statistics from the Investment Company Institute indicate that some money may be flowing from money market funds to bond funds. Year to date through September, money fund assets have declined $419 million, while bond funds saw $267 million in net new cash flow.

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 October, overnight rates were in the mid to low teens in basis points (bps) terms.

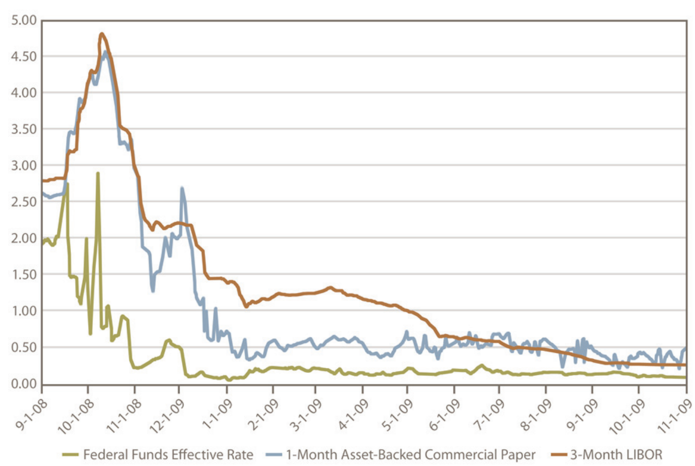
The London Interbank Offered Rate (LIBOR) is essentially flat out to three months. There was little movement in one- and three-month levels from last month at 0.24% and 0.28%, respectively. The LIBOR curve slopes upward past the three-month area. Six-month LIBOR ended the month at 0.56%, and one-year LIBOR was 1.20%, both down six to seven bps from last month. Fixed-rate levels available in the market are well below the posted LIBOR levels, however. Some market participants have been reaching out the curve to lock in yields in the low 0.30%s for six-month tenure securities. But with the uncertainty of the timing of rate increases, we have chosen instead to invest more conservatively, targeting three and four months for our longer investments, attaining yields in the high 0.20%s.

LIBOR CURVE COMPARISON



Source: Bloomberg LP

HISTORICAL INTEREST RATES, SEPTEMBER 2008 THROUGH OCTOBER 2009



Source: Bloomberg LP

Having hovered here for the past several months, short LIBOR levels seemed to have found a floor at the current levels; term rates don't seem to get much below 0.25% away from the industrials and government sectors. 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.

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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. As rates have compressed, municipal variable-rate demand notes (VRDNs) are sometimes offered higher yields than taxable investments of a comparable term, and we continue to add to that sector on an opportunistic basis. While we have increased the weighted average maturities of our portfolios somewhat, they remain well below the industry average of 51 days in institutional prime funds and 62 days in retail prime funds.

Strategies for the U.S. Government Markets

While demand remained strong for U.S. Treasury bills (T-bills) in October, supply dynamics were the main drivers of the continued drop in yields. As discussed in last month's commentary, the U.S. Treasury decided to wind down the Supplemental Financing Program (SFP) by the end of November. The SFP was created in 2008 as a means for the Federal Reserve to fund programs designed to ease turmoil in the credit markets. The U.S. Treasury issued T-bills, usually with maturities of 70 days, and deposited the proceeds directly into the Federal Reserve's account. However, Congress imposes a debt ceiling on the Treasury, limiting the aggregate amount of debt the Treasury can have outstanding. It was projected that the Treasury would breach this ceiling by mid-October if something was not done to lower the amount of outstanding debt. By letting the $200 million in T-bills currently in the market under the SFP mature, the breach of the debt ceiling was avoided.

The issue facing investors who held parts of the $200 million in SFP T-bills was what to do with the money upon maturity. Those who had the ability invested in Government-Sponsored Enterprise (GSE) discount notes and were actually able to pick up a bit of yield. Those who chose to remain in the T-bill market participated in the weekly auctions of one-, three-, and six-month bills or looked to the secondary market for both short-dated T-bills and Treasury notes.

Most buying during the month was focused on T-bills maturing one-month and shorter in hopes that the supply drain would level off and yields would begin to rise in the near future. Because of this, the yield on one-month T-bills fell to zero bps, while T-bills maturing inside of one-month actually traded at negative yields at month-end. Three-month T-bills ended the month at 0.06%, six-month at 0.14%, and one-year at 0.35%.

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.

Changes in yields on GSE discount notes were mixed in October. Most of the demand was in the shorter end of the yield curve, specifically in the one- to three-month sector. Low yields on overnight repurchase agreements (repo) prompted some investors to extend a bit to pick up yield. At the same time, some of those who had maturities in the SFP chose to invest in shorter-dated discount notes. Additionally, demand for discount notes maturing in January increased as investors began positioning themselves for potential year-end lack of supply.

Market participants looking to pick up yield in discount notes purchased in the four- to six-month sector. Discount notes with maturities longer than six months experienced waning demand, as the recent flattening of the yield curve provided less opportunity in an uncertain interest rate environment.

Supply remains a concern (total discount notes outstanding are down some 35% year to date) and continues to be a driving force in lower yields, especially in the one- to six-month part of the curve. 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.

The yield on one-month discount notes fell two bps, from 0.06% to 0.04%, while three-month notes fell one bp to 0.09%. One-year notes rose four bps to 0.39%. Our focus in the *Wells Fargo Advantage Government Money Market Fund* has been on liquidity and a stable $1.00 NAV. Most of our new investment purchases, besides repos, 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 fund.

Strategies for the Tax-Exempt Markets

Outflows from tax-exempt money market funds continued in October, although at a slower pace than occurred in September. The VRDN market has found a stable trading range with weeklies settling in the mid-20s, and daily VRDNs finding a trading range centered around 0.20%. This represents a spread tightening of around ten basis points from last month. As all money market rates have compressed as they approach zero, rates on weekly VRDNs are often

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higher than short taxable rates. After dipping to 0.24% for the month's first reset (98% of one-month LIBOR), the Securities Industry and Financial Markets Association Municipal Swap Index rose to 0.26% (106% of one-month LIBOR) in the second week and did not change for the remainder of the month.

As the yield curve has flattened, the notes market still seems to be relatively less attractive than VRDNs, so this area has not been a focus for us. We have been able to add some municipal commercial paper in the one- to three-month sectors at reasonably attractive yields.

The general strategy across all tax-exempt money market funds has been 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

We will in all likelihood face a prolonged period of low interest rates in the money markets. As investments purchased in the past at higher rates mature, money fund yields will continue to decline. With yields at record lows and credit spreads narrowing, we believe that this is the wrong time to be chasing yield.

While we take the Federal Reserve at its word when it tells us that rates may remain low "for an extended period," there are some signs globally that central banks are beginning to reverse course, or at least contemplate doing so. Australia and Norway have raised their rates, the Bank of Japan has discussed ending its purchases of corporate debt, and the European Central Bank may scale back its longer-term provision of liquidity to banks.

Attempting to increase yields by increasing maturity seems to be taking an inordinate risk at this point. Rates will inevitably rise, and this might necessarily require more emphasis on liquidity and a stable $1.00 NAV.

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 and to provide principal protection through a stable $1.00 NAV. Toward that end, we will pursue a conservative investment strategy that emphasizes high credit quality, liquidity, and a comparatively short maturity structure.

For more information, please contact:

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