

Wells Fargo Advantage Government Securities Fund (WGSDX)

Portfolio Managers: Jay Mueller, CFA; Michael Bray, CFA

Subadvisor: Wells Capital Management

Category: Government Bond

All information is as of 12-31-09 unless otherwise indicated.

FUND STRATEGY

- Incorporate top-down macroeconomic analysis with bottom-up security selection.
- Seek to generate excess performance through actively managing the four key elements of total return: duration, yield-curve positioning, sector allocation, and security selection.
- Use a set of predefined risk parameters that are predicated on the belief that superior risk-adjusted returns are the result of balancing alpha generation with comprehensive risk management.

KEY DRIVERS OF PERFORMANCE

- Structured products with the least amount of explicit government support continued to perform the best in the fourth quarter, as they did in the second and third quarters of 2009. The Fund's overweight of CMBS, ABS, and MBS helped performance; however, an underweight of traditional CMBS restrained relative performance. The Fund slightly underperformed its benchmark in the fourth quarter but outperformed its benchmark over the past 12 months.
- The Fund's holdings in nonhousing-related agency debt, and non-U.S. sovereign debt added relative value during the quarter; however, the overweight of CMBS project loans in lieu of traditional CMBS detracted from performance.

AVERAGE ANNUAL TOTAL RETURNS* (AS OF 12-31-09)

| | 3 Month | Year to Date | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception (10-29-86) |
|---|---------|--------------|--------|--------|--------|---------|----------------------------|
| Government Securities Fund—Admin | -0.08% | 3.79% | 3.79% | 6.27% | 5.01% | 6.24% | 7.29% |
| Lipper General U.S. Government Funds Average | -0.93% | 1.25% | 1.25% | 4.85% | 3.80% | 5.23% | — |
| Barclays Capital U.S. Aggregate Excluding Credit Bond Index | -0.04% | 3.14% | 3.14% | 6.14% | 5.07% | — | — |

*Returns for periods of less than one year are not annualized.

Figures quoted represent past performance, which is no guarantee of future results. Investment return, principal value, and yields of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Current month-end performance is available at the Fund's Web site, www.wellsfargo.com/advantagefunds. Administrator Class shares are sold without a front-end sales charge or contingent deferred sales charge.

The adviser has committed, through September 30, 2010, to waive fees and/or reimburse expenses to maintain the Fund's net expense ratio at 0.70%. Without these reductions, the Fund's returns would have been lower. The Fund's gross expense ratio is 0.84%.

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PORTFOLIO CHARACTERISTICS

| | Wells Fargo Advantage Government Securities Fund | Barclays Capital U.S. Aggregate Excluding Credit Bond Index |
|--|--|---|
| Duration | 3.67 | 4.09 |
| 30-Day SEC Yield | 3.88% | — |
| Avg. Credit | AAA | AAA/AA+ |
| Avg. Maturity | 6.00 | 5.95 |
| Sector Weights | | |
| U.S. Treasuries | 24.1% | 35.9% |
| Agencies | 6.5% | 11.7% |
| Commercial Mortgage-Backed Securities (CMBS) | 11.2% | 4.1% |
| Asset-Backed Securities (ABS) | 1.8% | 0.5% |
| Mortgage-Backed Securities (MBS) | 58.6% | 47.8% |
| Cash Equivalents | -2.7% | 0.0% |
| Other | 0.5% | 0.0% |

1. The ratings indicated are from Standard & Poor's and/or Moody's Investors Service.

Portfolio characteristics and sector weights are subject to change and may have changed since the date specified.

(See pages 6–7 for important information.)

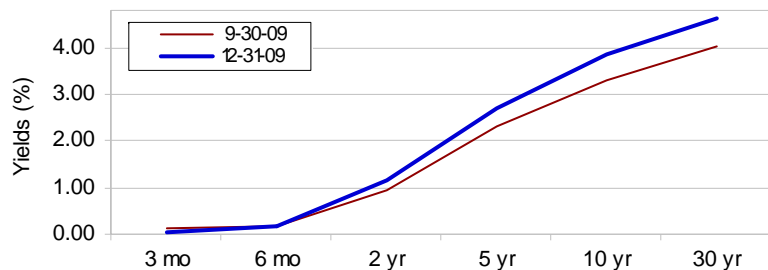
STRATEGY AND PERFORMANCE ATTRIBUTION (GROSS OF EXPENSES²)

| | Fund Positioning | Market Activity | Result |
|------------------------|--|---|-----------------|
| Duration | Duration positioning was neutral to shorter than the benchmark during the quarter. We tactically shifted duration throughout the quarter with changes in the U.S. Treasury curve. | The U.S. Treasury curve steepened with a significant upward shift in longer maturities. The Fund's shorter duration positioning and tactical adjustments added to performance. | Positive |
| Yield Curve | The Fund's yield-curve positioning was largely neutral during the quarter, as it was throughout 2008 and 2009. We began to employ some tactical flattening positioning later in the quarter between the ten-year and 30-year range. | The yield curve steepened and shifted higher, with a strong sell-off in longer-maturity Treasuries. Our neutral yield-curve positioning resulted in a neutral effect on performance with some slight added value from our tactical positioning. | Neutral |
| Sector | The Fund was overweight in structured products during the quarter, as it was throughout 2009. We were overweight in collateralized mortgage obligations (CMOs), CMBS, and ABS, with a slight underweight in MBS pass-throughs, and significant underweights in U.S. Treasuries and agency debt. The Fund has a small allocation to municipal bonds. | Structured products sectors continued to outperform U.S. Treasuries and agency debt in the fourth quarter, as they did in the third quarter and throughout much of 2009. The CMBS sector once again produced the highest sector return, but it throttled back a touch from the last two consecutive quarters of double-digit returns for a 3% return in the fourth quarter. ABS contributed strongly to relative returns. MBS pass-throughs and CMOs also added to positive performance from some spread tightening but mainly from yield carry. Agency debt and Treasuries declined in value. The Fund's overweight of CMOs, MBS, and ABS and underweights of U.S. Treasuries and agency debt added to relative performance. | Positive |
| Quality | The Fund continued to maintain an average AAA-rated credit quality in the fourth quarter, as it did throughout 2009. This high-quality bias is a consistent tenet of the Fund's strategy and is similar to the benchmark's AAA/AA+ credit quality. | Lower-quality securities outperformed high-quality securities during the fourth quarter, as they did in the third quarter. The Fund's high-quality bias is similar to that of the benchmark, and thus did not have a significant impact on relative performance. | Neutral |
| Issue Selection | Our overweight in the CMBS sector was mostly composed of Government National Mortgage Association (GNMA) project loans, which are backed by a government guarantee. We were underweight in traditional CMBS. We were also underweight in traditional agency debt, such as Federal National Mortgage Association in preference for nonhousing-related agencies, such as Tennessee Valley Authority (TVA). We were underweight in the highest-coupon MBS issues, with an overweight in the 5.0% to 5.5% range and underweight in the 4.0% to 4.5% range. We held several non-U.S. sovereign issues that we added to the Fund at spreads wider than U.S. agency debt. | Although the CMBS sector continued to be the best-performing sector during the quarter, the Funds' GNMA CMBS positions did not perform as strongly as the more risky, traditional CMBS positions. This restrained some relative performance. However, our nonhousing-related agencies, such as TVA, performed well as spreads tightened during the quarter. Non-U.S. sovereign issues also added to performance as investors gravitated to these securities due to low yields in U.S. agency debt. Higher-coupon MBS outperformed lower-coupon MBS because prepayments remained lower than expectations. Our underweight of the highest coupons detracted from returns. | Slight Negative |

2. The gross of expenses performance attribution does not reflect the deduction of the Fund's expenses as shown in the prospectus.

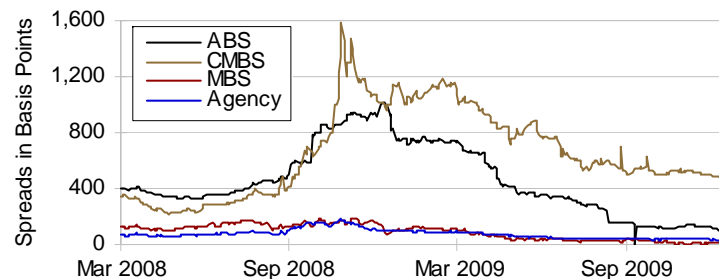
FIXED-INCOME MARKET REVIEW

The U.S. Treasury Curve Steepened During the Fourth Quarter



- The U.S. Treasury curve steepened and shifted higher during the fourth quarter, which was a reversal of the rally in Treasury yields during the third quarter. The 30-year bond increased the most, shifting 59 basis points higher.
- The shift higher in U.S. Treasury yields was consistent with the general trend over 2009. The third quarter was the only quarter in which U.S. Treasury yields declined during 2009.
- The yield on the 1-year note increased by only five basis points, while the 5-year note increased by 37 basis points, and the 10-year note by 53 basis points. The 3-month bill was the only Treasury that rallied, dropping by six basis points to a yield of only five basis points.

Structured Products Spreads Continued to Tighten



- ABS and CMBS spreads continued to tighten during the fourth quarter. ABS spreads finished 2009 at levels not equaled since the middle of 2007. CMBS continued to spread-tighten and were the best-performing sector during the quarter; however, CMBS spreads are still slightly above their pre-crisis levels.
- MBS spreads narrowed even further, setting new record lows during the fourth quarter. MBS spreads finished 2009 at 18 basis points but reached as low as two basis points during the fourth quarter, after finishing the third quarter at around 37 basis points.
- Agency spreads tightened slightly further to 34 basis points, after finishing the third quarter at 38.

CMBS and ABS Continued to Outperform U.S. Treasuries

| Sector | Credit Quality | UST Maturities |
|-----------------|----------------|----------------|
| U.S. Treasuries | -1.30% | AAA -0.10% |
| Agencies | -0.19% | AA 0.48% |
| ABS | 1.34% | A 0.93% |
| MBS | 0.57% | BBB 2.11% |
| CMBS | 3.27% | 10 Year -3.60% |
| | | 30 Year -8.46% |

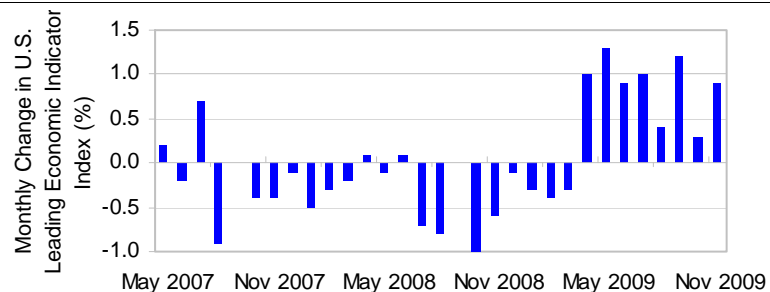
- CMBS and ABS sectors produced the best returns in the government securities market for the fourth consecutive quarter. Spreads in these sectors were extraordinarily high during the credit crisis and its immediate aftermath. Since then, both sectors have rallied tremendously. CMBS returned 3.27% in the fourth quarter, and ABS returned 1.34%.
- Lower-quality credit tiers once again outperformed higher-quality credit tiers for the fourth consecutive quarter. AAA-rated debt lost value in the fourth quarter after providing positive returns in the third quarter. BBB-rated debt was the best-performing investment-grade tier, returning 2.11%.
- Longer maturities lost value in the fourth quarter, after outperforming shorter maturities in the third quarter. The U.S. Treasury curve steepened sharply with a broad sell-off in longer-term debt.

Source: Barclays Capital

Past performance is no guarantee of future results.

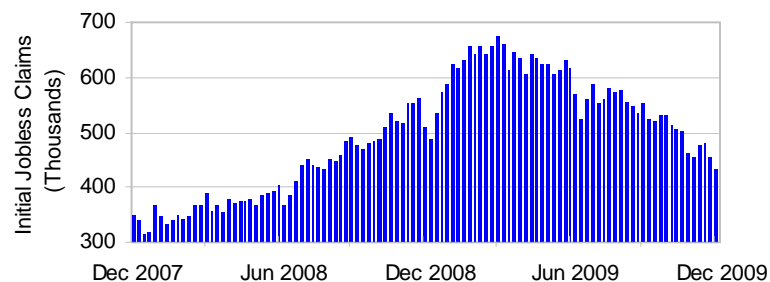
THE ECONOMY AND MONETARY POLICY

The Index of Leading U.S. Economic Indicators Expanded



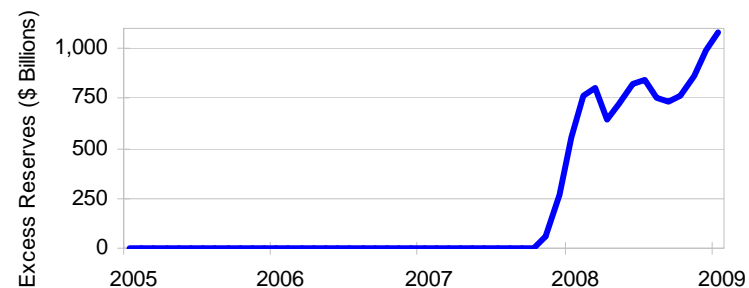
- Positive trends in economic conditions continued in several key economic measures during the fourth quarter. The Conference Board's index of ten leading economic indicators continued to improve throughout the fourth quarter, building on the economic expansion from the third quarter. Gross Domestic Product (GDP) expanded by 2.2% in the third quarter after four consecutive quarters of contraction.
- The Institute for Supply Management (ISM) Manufacturing Index continued to improve strongly, finishing the fourth quarter above 55, which is the highest level since the first half of 2006. Figures above 50 indicate economic expansion in manufacturing.
- The Federal Open Market Committee (FOMC) introduced new language regarding economic conditions in its December 16 policy statement, acknowledging that "financial market conditions have become more supportive of economic growth."

Initial Jobless Claims Declined but Unemployment Remained High



- Initial jobless claims continued to decline during the fourth quarter, finishing the year at a weekly average of around 450,000 compared with a weekly average of around 650,000 during the first quarter of 2009. Despite the trend toward improving employment conditions, continuing jobless claims remained elevated at recessionary levels, and the unemployment rate finished the year around 10%.
- At its December 16 meeting, the FOMC observed that "economic activity has continued to pick up and that deterioration in the labor market is abating... [however], businesses are still cutting back on fixed investment... and remain reluctant to add payrolls."
- Consequently, the FOMC stated that it intends to keep the target range for the federal funds rate at 0% to 0.25 percent, citing that "economic conditions, including low rates of resource utilization... are likely to warrant exceptionally low levels of the federal funds rate for an extended period."

Excess Reserves Continued to Build to an Extraordinary Level



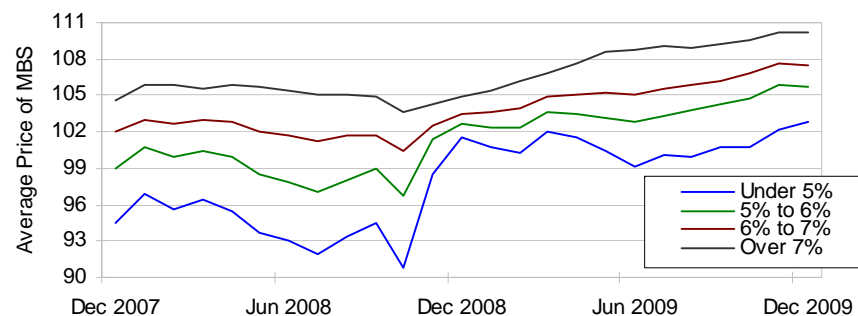
- Excess reserves grew to extraordinary levels throughout the credit crisis of 2008 and its aftermath in 2009. The continued use of quantitative easing programs by the Fed resulted in more than \$1 trillion held in excess reserves in the fourth quarter of 2009. Prior to 1991, excess reserves never exceeded \$2 billion. With the exception of September 2001, when they temporarily reached \$19 billion, they never exceeded \$5 billion until the recent credit crisis.
- In the fourth quarter, the Fed began to focus its attention on reducing excess reserves and unwinding several quantitative easing programs. Potential methods for reducing excess reserves included a massive reverse repurchase program and the eventual closing of the Fed's temporary liquidity swap arrangements with central bank counterparties.
- In the December 16 FOMC statement, the Federal Reserve confirmed that most of its special liquidity facilities would expire on February 1, 2010.

Source: Bloomberg

PORTFOLIO POSITIONING

- Although we tactically shifted duration shorter throughout the fourth quarter, we intend to maintain a structurally neutral duration positioning in the first quarter of 2010. We will likely continue to use modest tactical shifts to duration on a case-by-case basis, with a bias toward a shorter duration in view of the extreme steepness of the yield curve and the potential for shifting monetary policy effects in the upcoming year.
- Our yield-curve positioning is structurally neutral going into the first quarter of 2010, but with a tactical flattening position in place between the ten-year and 30-year range of the curve. We intend to remain structurally neutral but to employ tactical measures on a case-by-case basis.
- Our sector allocation continues to overweight structured products in lieu of U.S. Treasuries and agency debt. Going into the first quarter, we continue to be overweight CMOs and ABS, with a slight underweight to mortgage pass-throughs. We continue to prefer the higher yield-carry in structured products compared with the lower yields in U.S. Treasuries, agencies, and agency MBS.
- Although we are overweight CMBS, we are underweight in traditional CMBS, having preferred GNMA project loans in that sector. We intend to look for opportunities to increase our traditional CMBS allocation in the upcoming quarters and may attempt to add some short-maturity, older-vintage issues to the Fund in the first quarter.
- Our MBS allocation is mostly focused on issues in the 5.0% to 5.5% range. We intend to trim our higher-coupon holdings due to strong performance in that range of issuances, and on the premise that rising delinquencies may begin to speed up prepayments through buyouts of mortgages.

PRICING ACROSS THE MBS COUPON STACK REMAINED COMPRESSED



Source: Bloomberg

Past performance is no guarantee of future results.

OUTLOOK

As 2009 came to a close, it was impossible not to look back with astonishment at some of the impressive levels of return from broad areas of the fixed-income markets. According to the Barclays Capital sector indices, municipal bonds returned 12%, corporate bonds 18%, ABS 24%, CMBS 28%, and high yield 58%. With the exception of municipal bonds, each of these sectors appreciated further in the fourth quarter, building on strong 2009 rallies. However, it's important to note that "normal" yielding years from here on out will likely look languid in comparison with 2009. We started to see the first indications that some sectors of the fixed-income markets were throttling back a touch in the fourth quarter, particularly in longer-maturity municipal bonds. As the fourth quarter came to a close, it appeared that fixed-income markets were beginning to prepare for a return to modesty in 2010.

At the outset of 2010, we see the potential for improving economic growth, albeit with continued strong headwinds from high levels of unemployment. In our view, it is unlikely that the Fed will raise rates until a considerable improvement in employment conditions takes form. In our assessment, the Fed is more vigilant toward economic risks than to inflation risk at this time, meaning a tightening response is not likely until economic fundamentals and financial market conditions are reasonably secure. This implies extraordinarily low interest rates for an extended period, which would likely preserve the current historically steep yield curve through the first quarter of 2010, or until the Fed indicates that it will begin considering a tightening response.

Certainly there are events to monitor in the upcoming quarter, most notably the retirement of several stimulus and liquidity-support programs from the Federal Reserve, particularly the end of the MBS buying program. This will likely influence the market for mortgage-related debt but may also create opportunities and valuation shifts across various other asset classes. We intend to remain vigilant with those shifting opportunities. In our opinion, diligent and earnest assessment of the fundamental risks in individual fixed-income securities will be a key differentiating factor between which investment strategies perform well and which do not.

It became increasingly difficult to squeeze yield out of the government securities market in the fourth quarter because of the strong intervention from government support programs, which have driven spreads in MBS and yields in short-term U.S. Treasuries to record lows. Once again, the riskier spread sectors performed the best, as they did in the second and third quarters this year. Government securities with the least amount of explicit U.S. government support—such as various ABS and CMBS, non-U.S. sovereign debt, nontraditional agencies, and nonagency MBS—continued to outperform. We intend to continue searching for value in these types of securities in the first quarter of 2010.

The upcoming retirement of the MBS buying program by the Fed may affect asset valuations in the first quarter and may provide shifting opportunities to add value. We intend to continue searching for relative value in varying areas of the government-related asset classes. We believe that the *Wells Fargo Advantage Government Securities Fund* is well-positioned to provide benchmark-competitive returns and to tactically add value.

FUND FACTS

| | |
|--------------------------|------------|
| Inception Date | 10-29-86 |
| Net Expense Ratio—Admin | 0.70% |
| Assets—All Share Classes | \$1,940.0M |

Sources: FactSet, Zephyr Analytics

RANKINGS AND RATINGS

Morningstar Total Return Rankings—Administrator Class (as of 12-31-09)

| | |
|-----------------------------|-------------------------|
| Morningstar Category | Intermediate Government |
| 1 Year | 189 out of 367 funds |
| 3 Year | 77 out of 345 funds |
| 5 Year | 71 out of 318 funds |
| 10 Year | 26 out of 234 funds |
| Overall Morningstar Rating™ | ★★★★ |

The Overall Morningstar Rating, a weighted average of the three-, five-, and ten-year ratings, is out of 345 funds in the Intermediate Government category, based on risk-adjusted return as of 12-31-09.

Benchmark Descriptions:

The Barclays Capital U.S. Aggregate Excluding Credit Bond Index is composed of the Barclays Capital U.S. Government Bond Index and the Barclays Capital U.S. Mortgage-Backed Securities Index, and it includes Treasury issues, agency issues, and mortgage-backed securities. You cannot invest directly in an index.

The Lipper Averages are compiled by Lipper, Inc., an independent mutual fund research and rating service. Each Lipper Average represents a universe of funds that are similar in investment objective. You cannot invest directly in a Lipper Average.

Definition of Terms:

30-Day SEC Yield: The 30-Day SEC yield is calculated with a standardized formula mandated by the SEC. The formula is based on an estimated yield to maturity (assuming all portfolio securities are held to maturity) and is intended to reflect a fund's hypothetical annualized income, as a percentage of its assets. A fund's actual distribution rate will differ from the SEC yield and any income distributions from the fund may be higher or lower than implied by the SEC yield.

Credit Quality Ratings: Credit quality ratings apply to underlying holdings of the Fund and not the Fund itself. 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. Moody's rates the creditworthiness of bonds, ranging from Aaa (highest) to CC (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.

Duration: The weighted average of the timing of cash flow payments from fixed-income securities. Duration is used as a measurement of sensitivity to interest rates.

Yield Curve: A graphical representation of fixed-income security yields (usually U.S. Treasuries) at their respective maturities, starting with the shortest time to maturity and sequentially plotting in a line chart to the longest maturity.

Risks: Bond fund values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. In general, when interest rates rise, bond fund values fall and investors may lose principal value. The use of derivatives may reduce returns and/or increase volatility. Securities issued by U.S. government agencies or government-sponsored entities may not be guaranteed by the U.S. Treasury. Active trading results in increased turnover and trading expenses and may generate higher short-term capital gains. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). This Fund is exposed to mortgage- and asset-backed securities risk. Consult the Fund's prospectus for additional information on these and other risks. The U.S. government guarantee applies to certain of the underlying securities and NOT to shares of the Fund.

The views expressed in this document are as of December 31, 2009, and are those of the portfolio manager(s) 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. Any specific securities discussed may or may not be current or future holdings of the Fund. The securities discussed should not be considered recommendations to purchase or sell a particular security.

Administrator Class shares inceptioned on April 11, 2005. Performance shown prior to the inception of the Administrator Class reflects the performance of the Institutional Class shares, adjusted to reflect Administrator Class expenses. Performance shown prior to August 31, 1999, for the Administrator Class shares reflects the performance of the Investor Class shares, and includes expenses that are not applicable to and are higher than those of the Administrator Class shares.

Please note, some of the Morningstar[®] proprietary calculations, including the Morningstar Rating[™] and rankings, are not customarily calculated based on adjusted historical returns; however, in some cases, the investment's independent rating and ranking metric is compared against the retail mutual fund universe break points to determine its hypothetical rating and ranking. The evaluation of this investment does not affect the retail mutual fund data published by Morningstar.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees, unless otherwise indicated), placing more emphasis on downward variations and rewarding consistent performance.

The top 10% of funds in each category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars, and the bottom 10% receive one star. (Each share class is counted as a fraction of one fund within this scale and is rated separately, which may cause slight variations in the distribution percentages.) Across U.S.-domiciled Intermediate Government funds, the Government Securities Fund received four stars among 345 funds, four stars among 318 funds, and four stars among 234 funds for the three-, five-, and ten-year periods, respectively. Morningstar Ratings are for the Administrator share class only; other classes may have different performance characteristics. Past performance is no guarantee of future results.

Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus, containing this and other information, visit www.wellsfargo.com/advantagefunds. Read it carefully before investing.

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