

Wells Fargo Advantage High Income Fund (STHYX)

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Subadvisor: Wells Capital Management

Category: High Yield Bond

FUND STRATEGY

- Use both top-down credit market analysis and bottom-up credit research.
- Determine credit quality and industry allocations through top-down credit outlook and use rigorous bottom-up credit research to select securities.
- Use a team approach to management that features dedicated sector specialists who perform independent, proprietary research.

KEY DRIVERS OF PERFORMANCE

- The high-yield market generated positive performance for the fourth consecutive quarter, adding to an already record level of return from the asset class in 2009. Lower-quality credit tiers continued to outperform higher-quality credit tiers for the third consecutive quarter. The Fund's underweight of CCC-rated credits detracted from performance.
- The Fund's defensive positioning in sectors and individual security selection restrained relative returns. The Fund underperformed its benchmark in the fourth quarter and for the past 12 months due to its bias for higher-quality assets.
- Some of the Fund's riskier credits, such as Ineos, Verso, and Charter Communications, benefited from improved access to the capital markets, which caused their bonds to rally and added to performance in the fourth quarter.

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

	3 Month	Year to Date	1 Year	3 Year	5 Year	10 Year	Since Inception (12-28-95)
High Income Fund–Inv	4.70%	33.14%	33.14%	3.97%	4.93%	4.19%	6.67%
Lipper High Current Yield Funds Average	5.61%	46.41%	46.41%	3.08%	4.36%	4.80%	-
Barclays Capital U.S. Corporate High Yield Bond Index	6.19%	58.21%	58.21%	5.98%	6.46%	6.72%	-

*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. Investor Class shares are sold without a front-end sales charge or contingent deferred sales charge. The Fund has a redemption fee of 2.00% deducted from the net proceeds of shares redeemed or exchanged within 30 days after purchase. Performance data does not reflect the deduction of this fee, which, if reflected, would reduce the performance.

The adviser has committed, through September 30, 2010, to waive fees and/or reimburse expenses to maintain the Fund's net expense ratio at 0.95%. Without these reductions, the Fund's returns would have been lower. The Fund's gross expense ratio is 1.12%.

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

PORTFOLIO CHARACTERISTICS

	Wells Fargo Advantage High Income Fund	Barclays Capital U.S. Corporate High Yield Bond Index
Duration	4.46	4.30
30-Day SEC Yield	7.46%	-
Avg. Credit Quality ¹	B	B+/B
Avg. Maturity	5.49	6.83
Credit Quality Allocation		
AAA	0.0%	0.0%
AA	0.0%	0.0%
A	0.0%	0.0%
BBB	2.7%	0.0%
BB	28.5%	37.3%
B	51.1%	34.8%
CCC & Below	14.3%	24.7%
Nonrated	1.2%	3.2%
Cash Equivalents	2.1%	0.0%

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

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

Please keep in mind that high double-digit returns were primarily achieved during favorable market conditions. You should not expect that such favorable returns can be consistently achieved. A Fund's performance, especially for very short time periods, should not be the sole factor in making your investment decision.

(See pages 6–7 for important information.) CM209 01-10

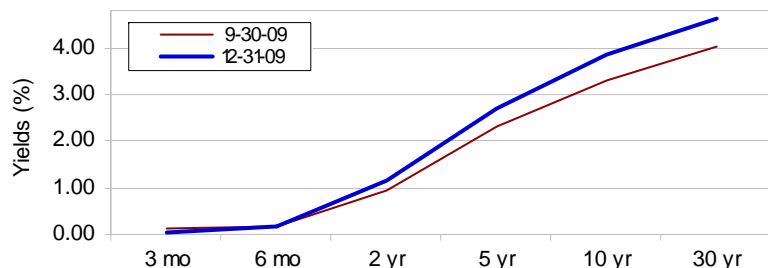
STRATEGY AND PERFORMANCE ATTRIBUTION (GROSS OF EXPENSES²)

	Fund Positioning	Market Activity	Result
Duration	The Fund's duration was short versus the benchmark during the quarter.	Duration positioning was not a major driver of performance attribution during the quarter because high-yield performance is primarily influenced by changes in credit spreads rather than the shift in Treasury rates.	Neutral
Yield Curve	Yield-curve positioning is not an aspect of the Fund's strategy due to the high-spread nature of the portfolio's holdings.	The U.S. Treasury curve steepened and shifted higher during the quarter.	Neutral
Sector	The Fund was overweight chemicals, media non-cable, telecom, gaming, health care, media cable, food and beverage, consumer products, and energy. We were underweight industrials, home construction, electric utilities, retail, and financials.	In general, riskier credits and riskier sectors continued to perform best. Our overweights in chemicals and media non-cable helped performance, as these sectors outperformed during the quarter. Underweights in financials and retail missed out on the excess returns from these sectors. We were underweight in industrials, home construction, and electric utilities, each of which underperformed the broad high-yield market. These underweights helped relative performance. However, overweights in the underperforming sectors of telecom, gaming, health care, media cable, food and beverage, consumer products, and energy detracted from relative performance.	Negative
Quality	The Fund continued to underweight CCC-rated credits in the fourth quarter, as it did throughout 2008 and 2009. We were overweight in B-rated credits. The Fund maintained an average credit quality that was similar to the benchmark.	Lower-quality credit tiers continued to outperform the higher-quality credit tiers in the fourth quarter. CCC-rated bonds once again outperformed the higher-quality tiers, returning 8% for the quarter, compared with 4% returns from BB-rated and B-rated credits.	Negative
Issue Selection	The Fund continued to have a bias for higher-quality credits in the fourth quarter, as it had throughout the year. Notable positions held by the Fund in the fourth quarter included Verso, Energy Future Holdings Corp (Energy Future), Ineos, First Data Corp., and Charter Communications (Charter). We continued to focus on holding securities with strong fundamentals, as we have done throughout 2009. This philosophy was not strongly rewarded in the fourth quarter, though it was not nearly as out of favor as it was in previous quarters this year.	Some of our riskier credits were the ones that best contributed to performance, such as Ineos, Verso, and Charter. Ineos is a distressed leveraged buyout (LBO) chemical producer. It has rallied strongly this year with the improvement in the capital markets. Verso also benefited from an ability to refinance, and its bonds rallied. Charter emerged from bankruptcy and rallied. In previous quarters, our higher-rated credits were the ones that lagged the most. However, some lower-rated credits underperformed this quarter, such as First Data, which is a highly levered company experiencing declines in its credit card business, and Energy Future, which is a highly levered Texas Utility that commenced a coercive tender offer during the quarter.	Negative

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

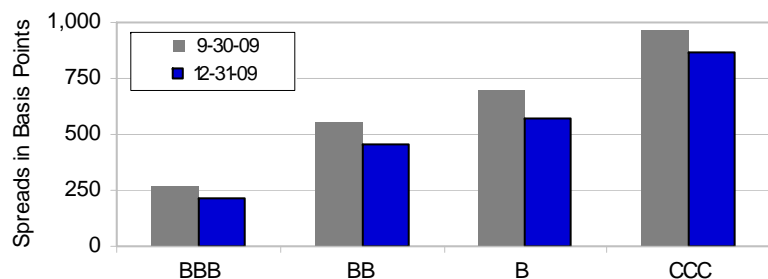
FIXED-INCOME MARKET REVIEW

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 yield 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 rallied 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.

High-Yield Spreads Continued to Tighten in the Fourth Quarter



- High-yield spreads continued to tighten further in the fourth quarter, extending the spread-tightening trends that have persisted throughout 2009.
- Although the spread-tightening trends continued in the fourth quarter, the pace of tightening has slowed from previous quarters. In the fourth quarter, CCC-rated spreads tightened by 96 basis points after tightening by 375 basis points in the third quarter, and nearly 1,000 basis points in the second quarter.
- B-rated spreads tightened the most in the fourth quarter, narrowing by 128 basis points. BB-rated spreads tightened by 99 basis points.
- High-yield spreads finished 2009 at levels not seen since the end of 2007, which was before the Bear Sterns-triggered credit crunch of March 2008 and the credit crisis of late 2008.

Lower-Quality Credits Continued to Perform the Best

High-Yield Sectors	High-Yield Subsectors	Credit Quality
U.S. High Yield 6.19%	Insurance 12.00%	BBB 2.06%
Industrials 5.90%	Finance Co. 9.88%	BB 4.76%
Utilities 5.23%	Chemicals 8.50%	B 4.76%
Financial Inst. 9.35%	Retailers 8.44%	CCC 8.71%
	Automotive 7.81%	CC-D 14.85%
	Technology 7.71%	Nonrated 6.67%

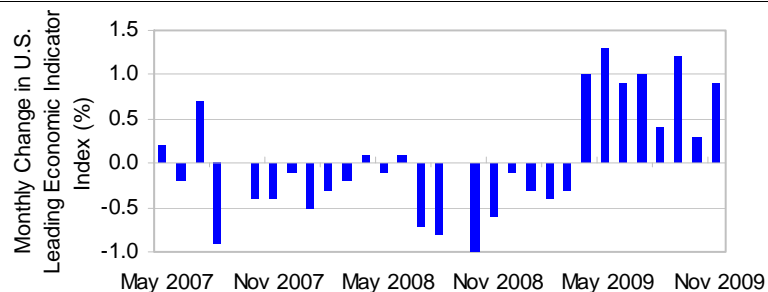
Source: Barclays Capital

Past performance is no guarantee of future results.

- The high-yield market continued to rally in the fourth quarter, building on its strongest-performing year on record. The high-yield index added another 6% in the fourth quarter for a return of 58% for the full year of 2009.
- Lower-quality credit tiers continued to outperform the higher-quality credit tiers in the fourth quarter. CCC-rated bonds returned 8.7%, while BB-rated and B-rated bonds returned 4.8%. The distressed CC/D performed best for the second consecutive quarter, returning 14.9%.
- The insurance subsector performed strongly again, returning 12% in the fourth quarter, after returning 39% in the third quarter. Financial institutions continued to build on a solid year, adding another 9.9% in the fourth quarter to finish the year up 92%.

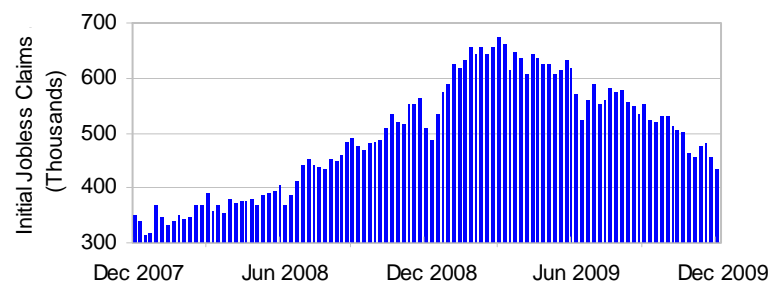
THE ECONOMY AND MONETARY POLICY

The Index of Leading U.S. Economic Indicators Expanded



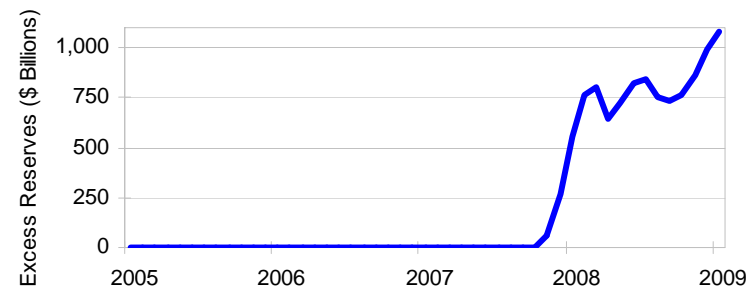
- Positive trends in economic conditions continued in several key economic measures during the fourth quarter. The Conference Board's index of ten leading economic indicators continued to improve throughout the fourth quarter, building on the economic expansion from the third quarter. Gross Domestic 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



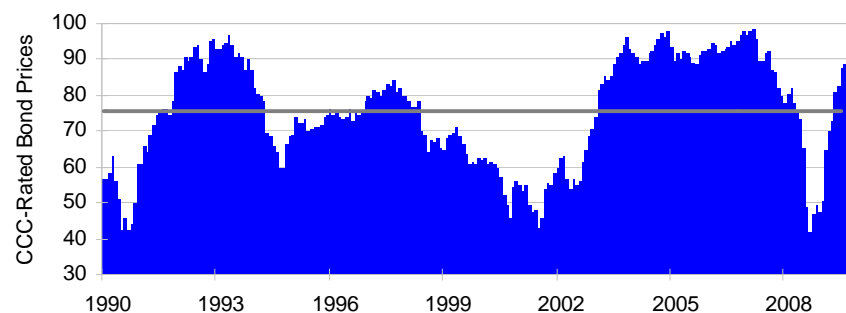
- Excess reserves grew to extraordinary levels throughout the credit crisis of 2008 and its aftermath in 2009. The continued use of quantitative easing programs by the Fed resulted in more than \$1 trillion held in excess reserves in the fourth quarter of 2009. Prior to 1991, excess reserves never exceeded \$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, Federal Reserve Bank of St. Louis.
Past performance is no guarantee of future results.

PORTFOLIO POSITIONING

- We intend to continue our defensive positioning for the Fund and our focus on holding credits with good underlying fundamentals. Although this strategy was not in favor during the strong high-yield credit rally in 2009, we believe that it is still a prudent strategy in the context of the current economic and financial market conditions. CCC-rated debt rallied strongly this past year and finished 2009 at an average price above 90. This is well above its historic average, despite the fact that we are in below-average economic conditions. We intend to continue to underweight the CCC-rated credit tier in the first quarter of 2010.
- In the fourth quarter we added some specific CCC-rated credits that offered fundamental value, though we continue to have a significant underweight in the CCC-rated credit tier. We intend to continue looking for positions that offer attractive fundamental valuations and stable balance sheets in the first quarter of 2010 and may constructively add positions in various credit tiers when opportunities become available.
- Our sector allocations are mostly unchanged going into the first quarter of 2010. In our view, it is more important to focus on the credit quality of individual securities than on top-down sector characteristics. Assessing individual credit profiles is paramount in the current environment, as securities may begin to demonstrate more idiosyncratic risk if and when the credit rally begins to throttle down. In our opinion, the diligent analysis of individual security profiles will be an important determinant of high-yield performance in the upcoming quarters.

CCC-RATED BOND PRICES CONTINUED TO CLIMB ABOVE AVERAGE



Source: Barclays Capital

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%, high-grade corporate bonds 18%, asset-backed securities 24%, commercial mortgage-backed securities 28%, and high yield corporate bonds 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" return 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 mortgage-backed securities 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. 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.

The high-yield bond market added another 6% in the fourth quarter on top of an already record-setting pace of price appreciation in 2009 to finish the year with a 58% return. Although we are not likely to see the same level of returns in 2010, the high-yield market does offer some intriguing opportunities, in our opinion. The upcoming year may begin to shake out the true economic survivors from the also-rans that benefited from an unrelentingly favorable credit rally in 2009. Thus, we feel solid credit analysis will be paramount.

Our intention is to accurately measure the credit quality of each credit we own. Many high-yield companies are still excessively leveraged, yet the access to credit markets to refinance that debt remains limited for companies with high leverage. Thus, credits we select and retain for the Fund need to have attractive valuations and fundamentally strong balance sheets. In our view, the *Wells Fargo Advantage High Income Fund* is positioned prudently for the ongoing risks in the high-yield markets, yet also tactically positioned to add solid credits with high income.

FUND FACTS

Inception Date	12-28-95
Net Expense Ratio–Inv	0.95%
Assets–All Share Classes	\$623.3M

Sources: FactSet, Zephyr Analytics

RANKINGS AND RATINGS

Morningstar Total Return Rankings–Investor Class (as of 12-31-09)

Morningstar Category	High Yield Bond
1 Year	494 out of 543 funds
3 Year	201 out of 475 funds
5 Year	168 out of 411 funds
10 Year	189 out of 258 funds

Overall Morningstar Rating™ ★★ ★

The Overall Morningstar Rating, a weighted average of the three-, five-, and ten-year ratings, is out of 475 funds in the High Yield Bond category, based on risk-adjusted return as of 12-31-09.

Benchmark Descriptions:

The Barclays Capital U.S. Corporate High Yield Bond Index is an unmanaged, U.S. dollar-denominated, nonconvertible, noninvestment-grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of \$150 million. 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). Standard & Poor’s rates the creditworthiness of short-term notes from SP-1 (highest) to SP-3 (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. Moody’s rates the creditworthiness of short-term U.S. tax-exempt municipal securities from MIG-1/VMIG-1 (highest) to SG (lowest).

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. High-yield securities have a greater risk of default and tend to be more volatile than higher-rated debt securities. The use of derivatives may reduce returns and/or increase volatility. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). This Fund is exposed to foreign investment risk. Consult the Fund’s prospectus for additional information on these and other risks.

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.

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 High Yield Bond funds, the High Income Fund received four stars among 475 funds, four stars among 411 funds, and two stars among 258 funds for the three-, five-, and ten-year periods, respectively. Morningstar Ratings are for the Investor 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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