

## Wells Fargo Advantage Municipal Bond Fund (WMFDX)

**Portfolio Managers:** Lyle J. Fitterer, CFA, CPA; Robert J. Miller; Mathew M. Kiselak

**Subadvisor:** Wells Capital Management

**Category:** Core Municipal Bond

### FUND STRATEGY

- Use both bottom-up credit research and top-down macroeconomic analysis.
- Seek to generate equivalent amounts of excess performance by actively managing the four key elements of total return: security selection, sector rotation, duration management, and yield-curve positioning.
- Use a relative-value approach based on extensive credit analysis that seeks opportunities from changing market trends and pricing inefficiencies to generate excess returns.

### KEY DRIVERS OF PERFORMANCE

- After several consecutive quarters of positive performance from municipal bonds, longer-term municipal debt declined in value in the fourth quarter. The Fund's shorter duration and underweight of the long end of the municipal yield curve added to relative performance. The Fund outperformed its benchmark in the fourth quarter and throughout 2009.
- The Fund's individual credit selection in specific local general obligations (GOs) and revenue bonds added relative value during the quarter. However, the general overweight of revenue bonds and the underweight of prerefunded bonds detracted from performance. Overweights in the lower credit-quality tiers also restrained relative 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 (10-23-86)
<b>Municipal Bond Fund—Admin</b>	0.28%	24.64%	24.64%	4.18%	4.77%	5.52%	5.62%
<b>Lipper General Municipal Debt Funds Average</b>	-1.27%	16.85%	16.85%	2.32%	2.91%	4.59%	—
<b>Barclays Capital Municipal Bond Index</b>	-0.96%	12.91%	12.91%	4.41%	4.32%	5.75%	—

\*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](http://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 October 31, 2010, to waive fees and/or reimburse expenses to maintain the Fund's net expense ratio at 0.60%. Without these reductions, the Fund's returns would have been lower. The Fund's gross expense ratio is 0.81%.*

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

### PORTFOLIO CHARACTERISTICS

	Wells Fargo Advantage Municipal Bond Fund	Barclays Capital Municipal Bond Index
Duration	6.08	8.29
30-Day SEC Yield	3.97%	—
Avg. Credit Quality <sup>1</sup>	A+	AA/AA-
Avg. Maturity	8.49	13.53
AMT <sup>2</sup>	14.69%	—
<b>Credit Quality Allocation</b>		
AAA	10.9%	30.4%
AA	16.2%	36.4%
A	31.5%	20.9%
BBB	13.6%	12.3%
BB	3.6%	0.0%
B	0.2%	0.0%
CCC	0.0%	0.0%
Nonrated	20.3%	0.0%
SP-1/MIG1	0.6%	0.0%
SP-2/MIG2	0.3%	0.0%
Cash Equivalents	1.8%	0.0%
<b>Sector Allocation</b>		
GO Bonds	10.3%	24.4%
Insured Bonds	8.7%	11.5%
Prerefunded Bonds	0.9%	10.6%
Revenue Bonds	78.1%	53.6%

1. The ratings indicated are from Standard & Poor's and/or Moody's Investors Service. 2. % of net assets in AMT bonds.

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

(See pages 6–7 for important information.)

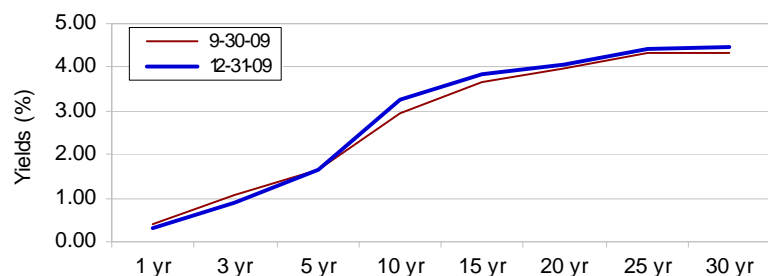
STRATEGY AND PERFORMANCE ATTRIBUTION (GROSS OF EXPENSES<sup>3</sup>)

	Fund Positioning	Market Activity	Result
<b>Duration</b>	Duration positioning of the Fund was short versus the benchmark, as it has been for the last four quarters. We modestly lengthened duration later in the quarter but remained short of the index.	Municipal bond yields generally shifted higher during the quarter. Most of this price deterioration occurred in October. The Fund benefited by being short-duration during the quarter and tactically getting longer during the better-performing months of November and December.	Positive
<b>Yield Curve</b>	The Fund's yield-curve positioning was underweight the long end of the curve, as it had been for the previous four quarters. We were underweight long-term maturities and overweight the intermediate part of the curve.	Longer-maturity municipal bonds declined the most in the fourth quarter, which was a reversal of their positive performance from the first three quarters of 2009. The Fund's underweight of the long end added relative value during the quarter.	Positive
<b>Sector</b>	The Fund's broad sector weights were the same as they had been throughout 2009: overweight in revenue bonds with underweights in state and local GOs, prerefunded bonds, and insured bonds. We continued to be underweight in tobacco, housing, hospitals, and health care, as we were in the previous quarters. We continued to be overweight in charter schools. We were underweight New York state GOs and held no California state GOs.	Several consecutive quarters of municipal bond rallies ended in October as each of the broad sectors declined in value. However, prerefunded bonds declined by far less than the other sectors and noticeably outperformed in November, resulting in positive quarterly performance, while revenue bonds and GOs lost value for the quarter. The Fund's overweight of revenue bonds and underweight of prerefunded bonds detracted from performance. Our underweight of state GOs helped performance, as GOs were the lowest-performing sector. However, an underweight of New York state GOs missed out on a strong quarter from New York bonds. Holding no California state GOs helped performance.	Negative
<b>Quality</b>	The Fund's overall credit quality was a couple of notches below the index, as it was throughout 2008 and 2009. The Fund was overweight the A-rated, BBB-rated, and BB-rated credit tiers.	Lower-quality municipal bonds underperformed in the fourth quarter after rallying throughout much of the first three quarters of 2009. BBB-rated municipal bonds performed worst of the investment-grade credit tiers. The Fund's overweight in lower-quality credits detracted from performance.	Negative
<b>Issue Selection</b>	Security selection has proven to be a primary driver of relative performance because of the increasingly diverse distribution of relative credit profiles in municipal bonds. Even within sectors, individual credit selection can have strong variations in performance. Some of our notable holdings for the quarter were Texas Municipal Gas, specific Puerto Rico sales tax bonds, South Carolina student loans, North Texas tolls, Cedars-Sinai Hospital, Delaware Valley Regional Finance Authority, and various industrial development revenue (IDR) and pollution control revenue (PCR) bonds.	Individual credit analysis has proven to be one of the most important factors in assessing municipal bond values in the changing environment. The Fund's holdings in Texas Municipal Gas, North Texas tolls, Puerto Rico sales tax bonds, and specific IDRs and PCRs, such as water and sewer bonds, added relative value during the quarter. Within the education sector, some subordinated student loans detracted from performance; however, our South Carolina student loans performed well. The Cedars-Sinai Hospital deal detracted from returns, as did the local GO issued by the Delaware Valley Finance Authority.	Positive

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

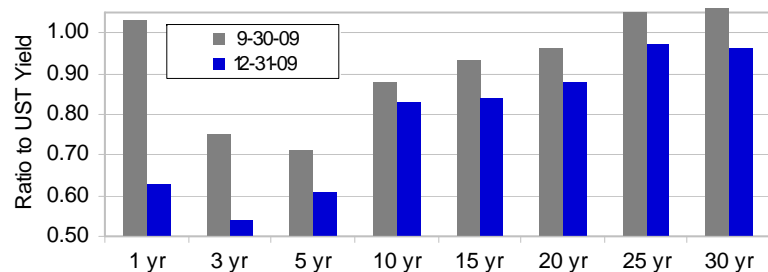
## FIXED-INCOME MARKET REVIEW

### The Municipal Yield Curve Steepened Further During the Quarter



- The municipal bond yield curve steepened further during the fourth quarter as yields on maturities shorter than five years declined, while those longer than five years shifted higher. This ended three consecutive quarters of rallies in longer-maturity municipal bonds.
- The ten-year segment of the municipal bond curve moved the most during the quarter, shifting higher in yield by 33 basis points.
- The U.S. Treasury curve also steepened during the quarter due to a strong upward shift in longer-maturity yields. The 5-year Treasury note shifted higher by 36 basis points, the 10-year note by 53 basis points, and the 30-year bond by 59 basis points.

### Municipal Bond Ratios Declined Further During the Quarter



- The ratios of municipal bond yields to equivalent U.S. Treasuries continued to decline further during the fourth quarter, particularly in the short-maturity range of the curve. Most of the ratios are now at, or even below, their historic averages after starting the year at extraordinarily high levels.
- Ratios of the 1-year, 3-year, and 5-year notes marked new historic lows, primarily due to the exceptionally low short-term U.S. Treasury yields.
- Ratios of intermediate and longer-maturity municipal bond yields generally hovered around historic averages, despite the sharp shift higher in longer-maturity U.S. Treasury yields.

### Lower-Quality and Longer-Maturity Bonds Declined the Most

Municipal Sector	Municipal Quality	Municipal Maturities
Muni Bond	-0.96%	AAA -0.34%
GO Bond	-1.21%	AA -0.95%
Insured Bond	-1.07%	A -0.98%
Prerefunded	0.44%	BBB -2.45%
Revenue Bond	-1.10%	1 Year 0.58%
		3 Year 0.80%
		5 Year 0.55%
		10 Year -1.27%
		20 Year -1.48%
		Long Bond -2.39%

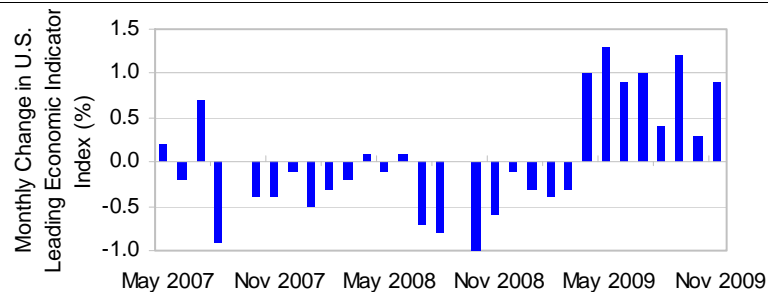
Source: Barclays Capital

Past performance is no guarantee of future results.

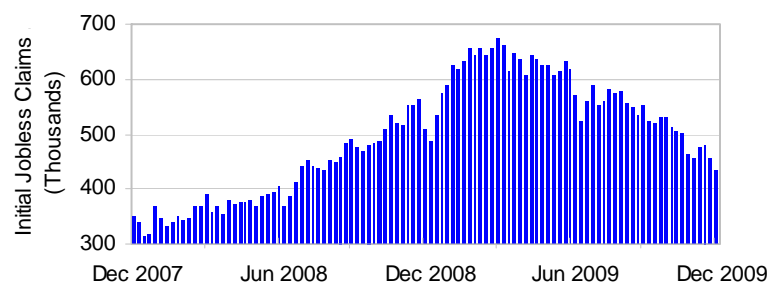
- In a reversal of the trends from the first three quarters of 2009, lower-quality and longer-maturity bonds declined in value during the fourth quarter. Previously, the riskier areas of the municipal bond market had been the best performers, but that year-long rally finally came to an end in the fourth quarter.
- Lower-quality was not in favor in the fourth quarter, as each respectively lower credit-quality tier underperformed each respectively higher credit tier. AAA-rated bonds returned -0.34%, while BBB-rated bonds shed -2.45%.
- Prerefunded bonds were the best-performing sector during the quarter after being out of favor for much of 2009. By contrast, the revenue bond sector underperformed after being the strongest-performing municipal bond sector in 2009.

## THE ECONOMY AND MONETARY POLICY

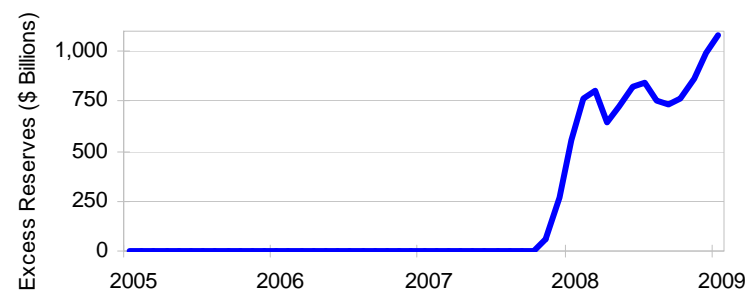
### The Index of Leading U.S. Economic Indicators Expanded



### Initial Jobless Claims Declined but Unemployment Remained High



### Excess Reserves Continued to Build to an Extraordinary Level



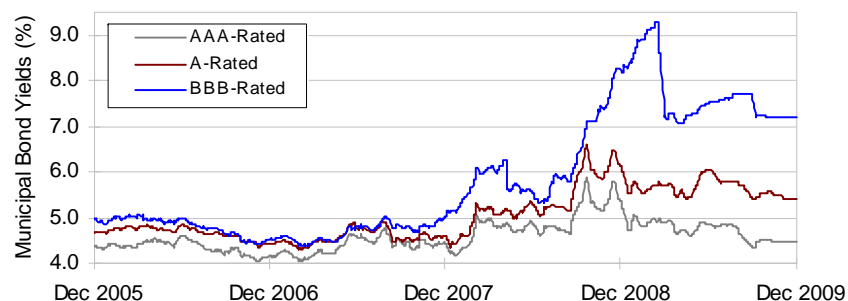
Source: Bloomberg, Federal Reserve Bank of St. Louis

- 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. The 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 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 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.

## PORTFOLIO POSITIONING

- We maintained a shorter duration positioning relative to the benchmark in the fourth quarter, as we had done throughout 2009. We brought the duration a bit longer and were targeting a level of approximately 85% of the benchmark duration going into the first quarter of 2010. We intend to maintain a modestly defensive interest-rate posture in the first quarter, in part due to the steepness of the curve and the low-interest-rate environment. We also continue to prefer adding attractive yields in lower-quality tiers in the short and mid ranges of the curve rather than extending for yield in longer-maturity, higher-quality credits.
- In the fourth quarter, we continued to underweight the long end of the curve in preference for the mid range, as we have done throughout 2009. Although we intend to maintain this overarching structural bias going into the first quarter, we have begun to reduce our underweight of the long end due to the historical steepness of the curve.
- The overall credit quality of the portfolio continues to remain slightly below the index, with overweights in the A-rated, BBB-rated, and BB-rated credit tiers. We intend to maintain this structural bias in the first quarter but are more focused on assessing the values of individual credit profiles within credit tiers.
- We intend to continue our structural bias for overweighting revenue bonds and underweighting state and local GOs. However, we have found relative opportunities in specific local GOs and intend to continue searching for these types of opportunities. We have begun adding some local California GOs but still hold no GOs from the state.
- We continue to like charter schools and essential-service bonds such as PCRs and IDRs. We also intend to continue selecting local GOs on a case-by-case basis. In our view, the divergence in yield levels across the credit tiers continues to offer opportunities for adding value.

## YIELD DISPERSION ACROSS CREDIT TIERS STILL HISTORICALLY WIDE



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%, asset-backed securities 24%, commercial mortgage-backed securities 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 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. 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.

After a strong rally in municipal debt throughout much of 2009, we began to see the budget woes of varying municipalities catch up with municipal bond valuations in the fourth quarter. Although we will likely continue to see those strains on specific issues in 2010, the Build America Bond program will likely continue to take some supply pressure off the tax-exempt market by diminishing the supply of tax-exempt municipal debt.

Going into the first quarter of 2010, we are most focused on accurately measuring the credit profiles of various municipal deals, as individual municipal securities begin to demonstrate more idiosyncratic risk. The yield dispersion across credit tiers is historically high, but also the varying relative value within credit tiers is equally divergent. Thus, fundamental analysis of security profiles continues to be a paramount criterion for assessing long-term values. In our view, the *Wells Fargo Advantage Municipal Bond Fund* is well-positioned to potentially capture long-term value from the higher-than-normal gradations in credit quality across the various credit tiers and across individual securities.

**FUND FACTS**

Inception Date	10-23-86
Net Expense Ratio—Admin	0.60%
Assets—All Share Classes	\$ 798.2M

Sources: FactSet, Zephyr Analytics

**RANKINGS AND RATINGS****Morningstar Total Return Rankings—Administrator Class (as of 12-31-09)**

Morningstar Category	Municipal National Long
1 Year	25 out of 271 funds
3 Year	28 out of 255 funds
5 Year	5 out of 232 funds
10 Year	21 out of 203 funds

Overall Morningstar Rating™ ★★★★★

The Overall Morningstar Rating, a weighted average of the three-, five-, and ten-year ratings, is out of 255 funds in the Municipal National Long category, based on risk-adjusted return as of 12-31-09.

**Benchmark Descriptions:**

**The Barclays Capital Municipal Bond Index** is an unmanaged index composed of long-term tax-exempt bonds with a minimum credit rating of Baa. 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. The use of derivatives may reduce returns and/or increase volatility. 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 high-yield securities risk. Consult the Fund's prospectus for additional information on these and other risks. 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 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 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<sup>®</sup> proprietary calculations, including the Morningstar Rating<sup>™</sup> 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 Municipal National Long funds, the Municipal Bond Fund received five stars among 255 funds, five stars among 232 funds, and four stars among 203 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](http://www.wellsfargo.com/advantagefunds). Read it carefully before investing.*

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