

Wells Fargo Advantage Short-Term Municipal Bond Fund (STSMX)

Portfolio Managers: Wendy Casetta; Lyle J. Fitterer, CFA, CPA
Subadvisor: Wells Capital Management
Category: Short-Term Municipal Bond

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

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 and a high level of tax-exempt income.

KEY DRIVERS OF PERFORMANCE

- For the fourth consecutive quarter, short-term revenue bonds generated the highest returns, while short-term prerefunded bonds returned the least. The Fund's significant overweight of revenue bonds helped performance. The Fund outperformed its benchmark during the fourth quarter and over the last 12 months.
- Lower-quality municipal notes with short-term maturities performed better than higher-quality notes in the front end of the yield curve. The Fund's significant overweight of A-rated credits contributed to performance.
- The Fund's shorter duration positioning restrained relative returns as short-term securities rallied 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 (12-31-91)
Short-Term Municipal Bond Fund—Inv	0.98%	10.43%	10.43%	4.22%	3.79%	4.15%	4.30%
Lipper Short Municipal Debt Funds Average	0.42%	5.26%	5.26%	2.79%	2.53%	3.20%	—
Barclays Capital 1–3 Year Municipal Bond Index	0.69%	4.64%	4.64%	4.80%	3.73%	3.94%	—

*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 adviser has committed, through October 31, 2010, to waive fees and/or reimburse expenses to maintain the Fund's net expense ratio at 0.66%. Without these reductions, the Fund's returns would have been lower. The Fund's gross expense ratio is 0.92%.

PORTFOLIO CHARACTERISTICS

	Wells Fargo Advantage Short-Term Municipal Bond Fund	Barclays Capital 1–3 Year Municipal Bond Index
Duration	1.77 years	2.02 years
30-Day SEC Yield	1.89%	—
Avg. Credit Quality ¹	A+	AA+/AA
Avg. Maturity	2.32 years	2.22 years
AMT ²	15.35%	—
Credit Quality Allocation		
AAA	6.2%	53.1%
AA	13.9%	26.2%
A	31.8%	14.1%
BBB	9.4%	6.7%
BB	0.6%	0.0%
B	0.0%	0.0%
CCC	0.0%	0.0%
Nonrated	8.1%	0.0%
SP-1/MIG1	19.4%	0.0%
SP-2/MIG2	6.9%	0.0%
Cash Equivalents	3.4%	0.0%
Sector Allocation		
GO Bonds	5.4%	23.1%
Insured Bonds	7.3%	6.0%
Prerefunded Bonds	2.5%	39.7%
Revenue Bonds	80.9%	31.2%

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.)

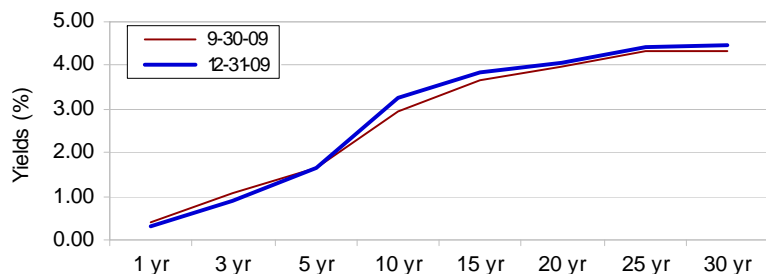
STRATEGY AND PERFORMANCE ATTRIBUTION (GROSS OF EXPENSES³)

	Fund Positioning	Market Activity	Result
Duration	Duration positioning of the Fund was short versus the benchmark during the fourth quarter. In the previous quarter, duration started out long versus the benchmark before moving shorter.	Short-term municipal maturities continued to rally in the fourth quarter, despite negative price return in longer-maturity municipal bonds. The Fund's shorter duration positioning missed out on some of the rally in the front end of the curve.	Negative
Yield Curve	The Fund's yield-curve positioning continued to be broadly allocated across the front end of the curve, with some exposure in maturities that are longer than those in the index.	Maturities shorter than five years performed well during the quarter. The Fund's allocation to some of the longer-maturity securities in the front end, such as the two- to five-year segment, added to performance.	Positive
Sector	The Fund continued to be significantly overweight revenue bonds in the fourth quarter, as it was throughout 2008 and 2009. We were underweight state and local general obligations (GOs) and insured bonds. We were significantly underweight prerefunded bonds. We were overweight in hospitals and industrial development revenue (IDR) bonds, pollution control revenue (PCR) bonds, gas prepaid bonds, and floating-rate notes (FRNs). Our hospital overweight was primarily composed of variable rate demand notes (VRDNs).	Shorter-maturity revenue bonds continued to perform well, despite the fact that longer-maturity revenue bonds did not. The Fund's overweight of revenue bonds and general obligations contributed to performance. Similarly, the underweight in prerefunded bonds helped performance in the short-term market, despite stronger performance from prerefunded bonds in the longer-maturity municipal market. Several specific sectors continued to provide attractive levels of income for the Fund in the fourth quarter, notably gas prepaid bonds, health care VRDNs, IDRs, and PCRs. Spread compression in the short-term health care sector also added to performance.	Positive
Quality	The Fund's overall credit quality was a couple notches below the index, as it was throughout 2008 and 2009. The Fund was significantly overweight A-rated tier and overweight the BBB-rated tier. We were underweight the AAA-rated tier.	Lower-quality municipal securities at the front end of the curve continued to outperform higher-quality securities in the fourth quarter as they have done throughout 2009. The Fund's high allocation of A-rated bonds and overweight of BBB-rated bonds helped performance.	Positive
Issue Selection	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 specific health care VRDNs, Puerto Rico sales tax bonds, North Texas tolls, the Ave Maria Florida land deal, and various IDRs and PCRs. We reduced our VRDN exposure to 17% from 21%.	Individual credit analysis has proven to be one of the most important factors in assessing municipal bond values in the changing environment. The Fund benefited from holding several positions with attractive levels of additional income compensation, such as specific health care VRDNs and Puerto Rico sales tax bonds. The Fund's holdings in specific IDRs and PCRs, such as water and sewer bonds, added relative value during the quarter, as did gas prepaid bonds and revenue bonds from Florida. The Ave Maria deal added to performance. Some transportation bonds detracted from performance.	Positive

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

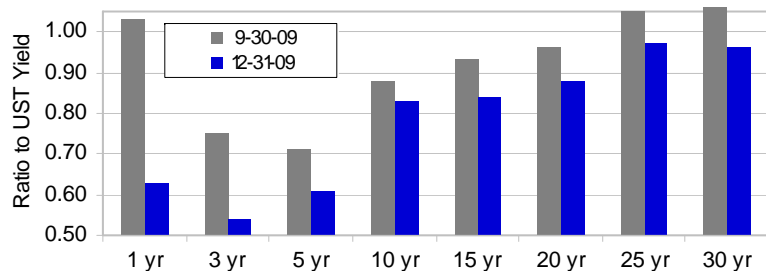
FIXED-INCOME MARKET REVIEW

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.

In Short-Term Municipal Notes, Lower-Quality Performed Best

1-3 Year Muni Index		1-3 Year Muni Quality		Muni Maturities	
1-3 Year Index	0.69%	AAA	0.64%	1 Year	0.58%
GO Bond	0.69%	AA	0.70%	3 Year	0.80%
Insured Bond	0.75%	A	0.98%	5 Year	0.55%
Prerefunded	0.62%	BBB	1.00%	10 Year	-1.27%
Revenue Bond	0.91%			20 Year	-1.48%
				Long Bond	-2.39%

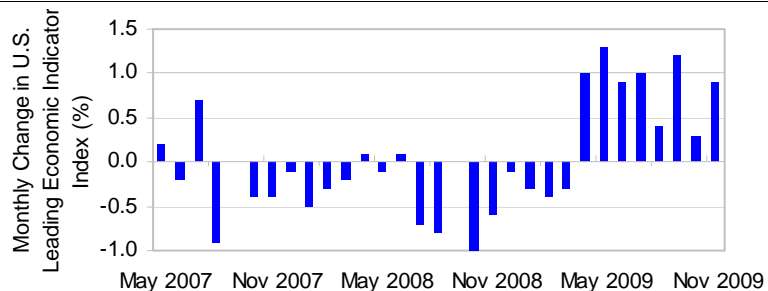
Source: Barclays Capital

Past performance is no guarantee of future results.

- Lower-quality municipal notes continued to perform strongly in the front end of the curve during the fourth quarter. This was in contrast with the lower-quality tiers in intermediate-term and longer-term municipal bonds, which lost value during the quarter.
- Across the curve, shorter-maturity municipal securities performed best, while longer maturities lost value in the fourth quarter.
- At the front end of the curve, the short-term revenue bond sector was the best performer, while the short-term prerefunded bond sector was the lowest performer.

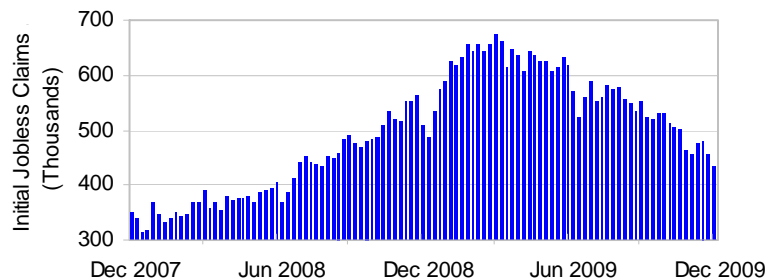
THE ECONOMY AND MONETARY POLICY

The Index of Leading U.S. Economic Indicators Expanded



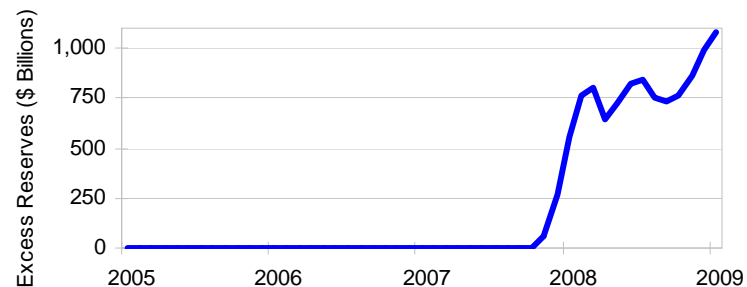
- Positive trends in economic conditions continued in several key economic measures during the fourth quarter. The Conference Board's index of ten leading economic indicators continued to improve throughout the fourth quarter, building on the economic expansion from the third quarter. The Gross Domestic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



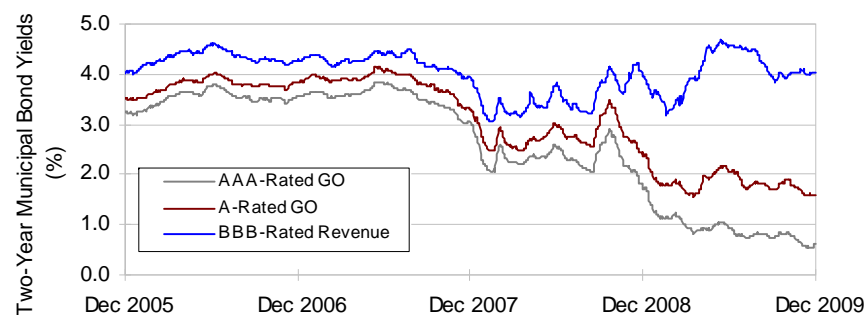
- Excess reserves grew to extraordinary levels throughout the credit crisis of 2008 and its aftermath in 2009. The continued use of quantitative easing programs by the Fed resulted in more than \$1 trillion held in excess reserves in the fourth quarter of 2009. Prior to 1991, excess reserves never exceeded \$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

- Going into the first quarter of 2010, we intend to maintain a duration positioning that is shorter than the benchmark. We brought it modestly higher later in the fourth quarter but are still short of the index. We intend to keep a slightly defensive positioning in view of the historically low yields at the front of the curve and the potential interest-rate risks.
- We intend to keep our yield-curve positioning broadly allocated across the front end of the curve. In our view, good yield value for the Fund can be found in mid-quality bonds in the two- to four-year range of the curve, as well as in some longer-maturity positions. We prefer to lock in the yield in two- to four-year securities and hold on to them as their time to maturity shortens, rather than adding lower yields in shorter-maturity positions.
- We continue to find opportunities for additional yield in the lower-quality credit tiers. Going into the first quarter of 2010, we are maintaining a significant overweight of the A-rated tier, with an underweight of the AAA-rated and AA-rated tiers. In our view, the mid-quality tiers have offered attractive levels of yield at compelling valuations.
- Our overarching sector preferences remain largely the same going into the first quarter as they were in the fourth quarter. We intend to continue overweighting the revenue sector and underweighting the prerefunded and GO sectors.
- The Fund continued to benefit from generous yields in VRDNs in the fourth quarter. Going into the first quarter, we are maintaining an overweight (~17% allocation); however, as VRDN rates have trended lower, our allocation has diminished slightly. We may continue to reduce our VRDN position in the first quarter as issues get refinanced, and if we find more compelling yields from fixed-rate securities.

YIELD DISPERSION ACROSS CREDIT TIERS STILL HISTORICALLY WIDE



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%, 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 Short-Term 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.

FUND FACTS

Inception Date	12-31-91
Net Expense Ratio—Inv	0.66%
Assets—All Share Classes	\$2,523.0M

Sources: FactSet, Zephyr Analytics

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

Morningstar Category	Municipal National Short
1 Year	10 out of 141 funds
3 Year	30 out of 127 funds
5 Year	3 out of 120 funds
10 Year	9 out of 65 funds

Overall Morningstar Rating™ ★★★★★

The Overall Morningstar Rating, a weighted average of the three-, five-, and ten-year ratings, is out of 127 funds in the Municipal National Short category, based on risk-adjusted return as of 12-31-09.

Benchmark Descriptions:

The Barclays Capital 1-3 Year Municipal Bond Index is the one to three year component of the Barclays Capital Municipal Bond Index, which 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.

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 Municipal National Short funds, the Short-Term Municipal Bond Fund received five stars among 127 funds, five stars among 120 funds, and four stars among 65 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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