

March 5, 2010

## Q&A: SEC Rule 2a-7 Amendments and how they relate to the Wells Fargo Advantage and Evergreen Investments Money Market Funds

### Background

On June 24, 2009, in a move to strengthen the regulatory framework for money market funds and increase their resilience to economic stresses, the U.S. Securities and Exchange Commission (SEC) proposed amendments to Rule 2a-7 and other rules under the Investment Company Act of 1940 governing the operation of money market funds.

On February 23, 2010 the SEC published full text of its final Money Market Reform rules (Release No. IC-29132), which were discussed and approved on January 27, 2010 at an Open Commission Meeting in Washington, D.C.

The final regulations include revisions designed to:

- Increase credit quality;
- Improve liquidity;
- Shorten maturity limits; and
- Modify reporting requirements of money market funds.

As stated in the SEC posting, the new rules are effective May 5, 2010; however, required compliance dates are staggered throughout 2010. We intend for Wells Fargo Advantage and Evergreen Money Market Funds to fully comply with the rule changes by the dates required by the SEC.

### 1. Can you tell me more about the rule changes adopted by the SEC?

The rule changes adopted by the SEC are designed to strengthen the regulatory requirements governing money market funds and better protect investors. They are intended to increase the resilience of money market funds to economic stresses and reduce the risks of runs on the funds by tightening maturity and credit-quality standards and imposing new liquidity requirements.

The following is a summary of the approved changes:

Reform Section	Amended Rule 2a-7	Current Rule 2a-7
Portfolio Liquidity	<i>Daily Liquidity:</i> For all taxable money market funds, at least 10% of assets must be in cash, U.S. Treasury securities, or securities that convert into cash the next business day.	No daily liquidity provision.
	<i>Weekly Liquidity:</i> For all money market funds, at least 30% of assets must be in cash, U.S. Treasury securities, certain government securities maturing within 60 days, or securities that convert into cash the next five business days.	No weekly liquidity provision.
	<i>Illiquid Securities:</i> (i.e. a security that cannot be sold at carrying value within seven days) Illiquid securities cannot exceed 5% of portfolio at time of purchase.	Illiquid securities cannot exceed 10% of fund assets.

Portfolio Maturity	<i>Weighted Average Maturity (WAM)</i> <sup>1</sup> : Maximum WAM of 60 days.	Maximum WAM of 90 days.
	<i>Weighted Average Life (WAL)</i> <sup>2</sup> : Maximum WAL of 120 days.	No comparable requirement.
Credit Quality	<i>Second Tier Securities</i> <sup>3</sup> : Second tier exposure limited to 0.5% per issuer and 3% in total, maturing in 45 days or less.	1% per issuer, 5% total Maximum maturity of 397 days.
	<i>Ratings Agencies</i> : Fund board will annually designate four Nationally Recognized Statistical Rating Organizations (NRSRO) to be used to determine minimum ratings criteria	No comparable requirement.
	<i>Repurchase Agreements</i> : To "look through," collateral must be cash items or government securities with creditworthy counterparties. Adviser must evaluate the creditworthiness of the repurchase counterparty.	Collateral must be "highly rated." No requirement with respect to the creditworthiness of repo counterparties.
Know Your Investor	<i>All Funds</i> : Hold sufficient liquid securities to meet "foreseeable" redemptions. Funds are required to develop procedures to identify investors whose redemption requests may pose risks for the funds.	No comparable requirement.
Periodic Stress Testing	Monthly testing of a fund's ability to maintain a stable \$1.00 net asset value (NAV) in the event of interest-rate or spread changes, shareholder redemptions, and credit changes.	No comparable requirement.
Disclosure	<i>Portfolio Holdings</i> : Portfolio holdings to be posted to fund's Web site at least monthly and maintained for a period of at least six months.	No portfolio holdings Web site disclosure requirement.
	<i>Monthly SEC Filing (Form N-MFP)</i> : Information about a fund's risk characteristics, yield, portfolio holdings, and mark-to-market ("shadow") NAV (this will be made public with a 60-day lag).	
Money Fund Operations	Funds may suspend redemptions if the NAV falls below \$1 and, as a result, the fund will be liquidated; advisor systems must be able to process shareholder transactions at a price other than \$1.	No comparable requirement.
	Affiliates may purchase securities from funds before a downgrade or default without prior approval by the SEC; SEC must still be notified if this occurs.	SEC approval was required prior to allowing affiliate purchases.

For more information on the rule changes, please visit the [SEC Web site](#) for the final Money Market Reform rules posting (Release No. IC-29132).

<sup>1</sup> Weighted Average Maturity (WAM): WAM calculates an average time to maturity of all of the securities held in the portfolio, weighted by each security's percentage of net assets. The calculation takes into account the final maturity of a fixed income security and the interest rate reset date for floating rate securities held in the portfolio. This is a way to measure a fund's sensitivity to potential interest rate changes.

<sup>2</sup> Weighted Average Life (WAL): WAL calculates a fund's average time to maturity for all of the securities held in the portfolio, weighted to their percentage of assets in the fund. In contrast to WAM, the WAL calculation takes into account the final maturity date for each security held in the portfolio. This is a way to measure a fund's potential sensitivity to credit spread changes.

<sup>3</sup> Second Tier Securities: Are eligible money market securities that, if rated, have received other than the highest short-term debt rating from the requisite NRSROs or, if unrated, have been determined by the fund's board of directors to be of comparable quality.

## 2. What is Wells Fargo Funds Management and Evergreen Investments’ official position on the recently adopted money market fund rule changes?

One of the goals of the SEC’s recently adopted money market fund rule changes is to reinforce conservative investment practices across the money market fund industry. Our security selection process has long emphasized conservative investment choices, and all of our money market funds maintain an approach to investing that prioritizes the preservation of capital and liquidity. As such, the spirit of the SEC’s changes aligns well with our philosophy on money market investing.

As David D. Sylvester, head of Money Markets for Wells Capital Management, said in a recent portfolio management commentary, “We think it’s a good idea for funds to focus on their liquidity, and these changes will help to sharpen that focus. We have long been advocates of managing money market funds in a highly liquid manner in an effort to provide adequate liquidity for shareholder redemptions, stabilize the net asset value (NAV), and to make a fund’s yield more responsive to changes in the general level of interest rates. For this reason, the amendments largely codify our current investment practices.”

For more on the money market landscape as a whole and the impact of these recently adopted changes, please see the fund [portfolio management commentary](#), which can be found on the home page of our [Institutional Cash Management Web site](#).

In summary, we support the SEC’s goal of strengthening the resiliency of money market funds through enhanced liquidity and improved credit quality.

Following is a summary of our position on each of the recently adopted money market fund rule changes:

Reform Section	Amended Rule 2a-7	Wells Fargo and Evergreen Investments’ Position
Portfolio Liquidity	<i>Daily Liquidity:</i> For all taxable money market funds, at least 10% of assets must be in cash, U.S. Treasury securities, or securities that convert into cash the next business day.	<b>All of the Wells Fargo Advantage and Evergreen Money Market Funds intend to satisfy these proposed requirements prior to the date required by the SEC.</b>
	<i>Weekly Liquidity:</i> For all money market funds, at least 30% of assets must be in cash, U.S. Treasury securities, certain government securities maturing within 60 days, or securities that convert into cash the next five business days.	
	<i>Illiquid Securities:</i> (i.e. a security that cannot be sold at carrying value within seven days) Illiquid securities cannot exceed 5% of portfolio at time of purchase.	
Portfolio Maturity	<i>Weighted Average Maturity (WAM):</i> Maximum WAM of 60 days.	<b>This new requirement will not materially change our existing investment discipline.</b> All of the Wells Fargo Advantage and Evergreen Money Market Funds are currently managed with WAMs of less than 60 days—the WAMs of our portfolios are currently below the industry average of comparable funds. We have historically not exceeded 60-day WAMs in any of our Funds.

	<i>Weighted Average Life (WAL):</i> Maximum WAL of 120 days.	<b>This new requirement will not materially change our existing investment discipline.</b> Consistent with our history of generally maintaining shorter WAMs than the industry average, all of the Wells Fargo Advantage and Evergreen Money Market Funds are currently managed with WALs below 120 days.
Credit Quality	<i>Second Tier Securities:</i> Second tier exposure limited to 0.5% per issuer and 3% in total, maturing in 45 days or less.	<b>The rule changes are consistent with our current practice and would not alter our general investment discipline.</b> As a general rule, the Wells Fargo Advantage and Evergreen Money Market Funds only purchase First Tier securities.
	<i>Ratings Agencies:</i> Fund board will annually designate four NRSROs to be used to determine minimum ratings criteria.	<b>We are reviewing the capabilities of all NRSROs in order to provide the Board with the information that it needs to make this determination.</b>
	<i>Repurchase Agreements:</i> To "look through," collateral must be cash items or government securities with creditworthy counterparties. Adviser must evaluate the creditworthiness of the repurchase counterparty.	<b>We currently evaluate the creditworthiness of all of our repo counterparties and only enter into these agreements with approved entities.</b>
Know Your Investor	<i>All Funds:</i> Hold sufficient liquid securities to meet "foreseeable" redemptions. Funds are required to develop procedures to identify investors whose redemption requests may pose risks for the funds.	<b>We currently have a large trade communication process in place with our large intermediary clients in order to better manage large flows.</b> In addition, we are finalizing the implementation of a shareholder flow model that we believe will satisfy the new requirements.
Periodic Stress Testing	Monthly testing of a fund's ability to maintain a stable \$1.00 NAV in the event of interest-rate or spread changes, shareholder redemptions, and credit changes.	<b>We have long analyzed the various factors related to the maintenance of a stable \$1 NAV</b> and the effects that a variety of adverse events might have on our Funds. We are reviewing these stress tests to verify they satisfy the new requirements.
Disclosure	<i>Portfolio Holdings:</i> Portfolio holdings to be posted to fund's Web site at least monthly and maintained for a period of at least six months.	<b>Holdings for all of the Wells Fargo Advantage Money Market Funds are currently posted daily on our publicly available Web site and weekly for the Evergreen Money Market Funds.</b> We are in the process of designing an archive for the Wells Fargo Advantage and Evergreen holdings that would satisfy the six-month availability requirement.
	<i>Monthly SEC Filing (Form N-MFP):</i> Information about a fund's risk characteristics, yield, portfolio holdings, and mark-to-market ("shadow") NAV (this will be made public with a 60-day lag).	<b>All of the Wells Fargo Advantage and Evergreen Money Market Funds intend to satisfy these proposed requirements prior to the date required by the SEC.</b>
Money Fund Operations	Funds may suspend redemptions if the NAV falls below \$1 and, as a result, the fund will be liquidated; advisor systems must be able to process shareholder transactions at a price other than \$1.	<b>This requirement will not alter the way the investments in the Wells Fargo Advantage and Evergreen Money Market Funds are managed.</b> We currently have the ability to process purchases and redemptions electronically at a price other than \$1/share for some of our distribution channels, and will be working to implement this process for all of our clients.
	Affiliates may purchase securities from funds before a downgrade or default without prior approval by the SEC; SEC must still be notified if this occurs.	<b>This enhanced capability will not alter the investment processes of the Wells Fargo Advantage and Evergreen Money Market Funds.</b> This requirement enables money market fund sponsors to take more direct intervention to support the \$1.00 NAV.

**3. Do the recently adopted rule changes affect the Wells Fargo Advantage and/or the Evergreen Money Market Funds? Are we compliant with all of the new rule changes?**

The spirit of the SEC reforms aligns well with our own philosophy of taking a conservative approach to money market investing. As such, the rule changes will not have a material impact on the way we manage money market funds. In most cases, we already adhere to the new policies, including:

- Posting on a Web site our holdings on at least a monthly basis;
- Maintaining a short weighted average maturity;
- Limiting the purchase of Second Tier securities; and
- Maintaining portfolio liquidity.

We intend for the Wells Fargo Advantage and Evergreen Money Market Funds to fully comply with the rule changes by dates required by the SEC.

As always, prudent investment of clients' assets is our top priority. If you have any questions regarding Wells Fargo Advantage or Evergreen Money Market Funds, please contact the Institutional Sales Desk at 1-888-253-6584.

**4. When will the recently adopted money market fund rule changes take effect?**

As stated in the SEC posting, the new rules are effective May 5, 2010; however, required compliance dates are staggered throughout 2010. Unless otherwise noted below, the compliance date for the rules is the date of effectiveness, May 5, 2010.

- May 28, 2010—Compliance required for quality, individual security maturity, liquidity and repo changes
- June 30, 2010—Compliance required for Weighted Average Maturity (WAM) and Weighted Average Life (WAL) changes
- October 7, 2010—Compliance required for monthly portfolio Web site disclosure
- December 7, 2010—Compliance required for monthly reporting to the SEC of mark-to-market NAV and other portfolio details, to be published by the SEC on a 60-day lag
- December 31, 2010—Compliance required for NRSRO disclosure
- October 31, 2011—Compliance required for processing transactions at other than a \$1 NAV

According to the SEC posting, “funds are not required to dispose of portfolio securities owned, or terminate repurchase agreements entered into, as of the time of adoption of the amendments to comply with the requirements of the rule as amended.”



## 5. Will the SEC be considering any additional proposed amendments?

Yes. The SEC plans to continue to review additional fundamental changes to the structure of money market funds. Among the additional possible reforms are:

- A floating NAV, rather than the stable \$1.00 NAV prevalent today;
- Mandatory redemptions-in-kind for large redemptions (such as by institutional investors);
- “Real time” disclosure of shadow NAV;
- A private liquidity facility to provide liquidity to money market funds in times of stress;
- A possible “two-tiered” system of money market funds, with a stable NAV only for money market funds subject to greater risk-limiting conditions and possible liquidity facility requirements; and
- Several other options being discussed with the President’s Working Group.

According to the SEC, while each of these ideas is under serious and active consideration, they represent substantial revisions to the money market fund landscape and therefore require further review and study.

As we get clearer direction over the coming months about any additional final rulings from the SEC, we will provide official communications to our clients about these changes and what they can expect in the management of their assets.

## 6. Can you tell me more about the Wells Fargo Advantage and Evergreen Money Market Fund offerings?

As of December 31, 2009, the *Wells Fargo Advantage Funds*<sup>®</sup> and the *Evergreen Funds* have a combined total of \$164.7 billion in money market fund assets. The two fund families offer a diverse set of money market offerings across multiple distribution platforms, making Wells Fargo one of the ten largest U.S. money market mutual fund providers in the industry.

The Wells Fargo Advantage Money Market Funds are overseen by the Wells Capital Management (WellsCap) money market management team. WellsCap, which serves as an independent subadviser for the Funds, oversees more than \$126.8 billion in money market assets, while the team that oversees the Evergreen Money Market Funds manages more than \$37.9 billion in assets as of December 31, 2009. Both money market teams are headed by David D. Sylvester and follow a conservative management discipline focused on principal protection with additional emphasis on liquidity.

*An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.*

*Carefully consider a fund’s investment objectives, risks, charges, and expenses before investing. For a current prospectus, containing this and other information, visit [www.evergreeninvestments.com](http://www.evergreeninvestments.com) for Evergreen Funds and [www.wellsfargo.com/advantagefunds](http://www.wellsfargo.com/advantagefunds) for Wells Fargo Advantage Funds. Read the prospectus carefully before investing.*



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