WELLS FARGO Advisors

Auction-rate securities

Overview, features, and risks

Past developments in auction-rate securities market severely curb liquidity

In February 2008, turmoil in credit markets translated to an abrupt decline of liquidity in the market for auction-rate securities (ARS) which continues today. It still remains unclear when the ARS market will recover, if ever.

Summary of firm policy for auction-rate securities

As a result of the ongoing uncertainty in this market, we want to reiterate that the firm is under no obligation to participate in any auction to prevent the auction from failing, nor can we ensure that other broker-dealers will bid to prevent an auction from failing. Our decision to participate or not participate in any particular auction will be made at our sole discretion based on multiple factors which include our corporate interests and our capital among others, and these factors may not all align with the liquidity needs of ARS investors in any particular auction.

No assurances regarding auction outcomes

Wells Fargo Advisors provides no assurance as to the outcome of any auction. Nor does Wells Fargo Advisors provide any assurance that any bid will be successful, in whole or in part, or that the auction will clear at a rate that a bidder considers acceptable. Bids may be partially filled or not filled at all, and the rate established in an auction may be lower than expected.

Product overview

There are two varieties of auction rate securities: long-term bonds that earn variable, short-term coupon payments, and perpetual preferred stock that pays variable, short-term dividends. ARS rates are determined through a periodic auction process or in the event of a failed auction derived by a formula which is detailed in the securities' prospectus. Municipal entities may issue tax-exempt or

taxable auction-rate bonds for municipal purposes. Auction-rate preferred shares are primarily issued by investment-management companies, which may issue either tax-exempt or taxable ARS, depending on the unique characteristics of the investments made by the investment-management company.

ARS help issuers diversify their funding structure because they pay at variable, short-term rates while traditional bond issues pay a fixed, long-term rate. ARS rates are typically reset every 7, 28, or 35 days, or longer depending on the issue. While municipalities or corporations issuing ARS may use the proceeds to fund specific projects or for general purposes, investment-management companies use the proceeds from the sale of ARS to invest in other securities to be held by a closed-end mutual fund, as described in the fund's prospectus. As long as the closed-end fund's rates of return on the investments purchased with the proceeds from the sale of ARS exceed the rates the fund pays on the ARS, the fund earns the difference, or "yield spread," between the two rates. The yield spread may be passed on by the investment company to its shareholders in the form of increased dividends.

Common features

The features and risks of ARS vary from issue to issue. Also, the practices and procedures of broker-dealers and auction agents conducting ARS auctions may differ. For a complete discussion of the specific features and risks, ask your financial advisor for the specific offering documents for the ARS you wish to purchase.

- The typical minimum investment for ARS ranges from $25,000 to $100,000; some may be available in additional increments of $1,000 or $5,000 thereafter. Amounts under the minimum investment cannot be bid in auctions, and may be difficult to sell in the secondary market.
- Auctions typically occur every 7, 28, or 35 days, or at longer intervals.
- The coupon or dividend rate is reset and investors can buy, sell, or continue to hold ARS through a successful auction process.
- Municipal ARS may be exempt from federal and state-specific taxes, but may be subject to the alternative minimum tax.
- A range of credit qualities is available (indicated by each issue's credit ratings).
- Coupons or dividends are usually paid on the first business day following each auction date to holders of record on the auction date.
- While there may not be a market to effect trades between auctions, ARS that pay coupons reflect accrued interest between auctions. ARS that pay dividends generally will not reflect accrued dividends between auctions.
- Auction bonds are typically long-term, often with final maturities of 30 years or longer. ARPS are issued as shares with perpetual maturities.

ARS should not be considered a substitute for cash and may not be appropriate for unsophisticated investors. This informational material describes the characteristics of the product, the periodic rate-setting auction process, and the risks associated with investments in ARS.

Determining whether ARS are correct for you

ARS may offer attractive short-term yields, but investors should carefully consider the features, risks, and limitations of a specific ARS before purchasing. Investors should carefully consider the auction process and how it affects their rights, obligations, and limitations for an ARS investment. Among the factors that investors should consider are:

- Limitations to investor liquidity in the event of a failed auction
- Consequences of passive or active bidding in an auction
- The impact of potential actions of Wells Fargo Advisors and other broker-dealers on the results of auctions and in the investors' potential investment results
- The effect of the auction process on investment results and an investor's ability to obtain the return of the full principal amount of the investment
- Your tax status and the tax consequences of a specific ARS*
- Bond-portfolio strategy implications of an ARS investment given its long-term or perpetual final maturity and short-term rate characteristic, and the accounting treatment of ARS investments for corporations
- Credit quality of the investment

How the periodic auction-process works

Auction procedures

The rate on ARS is determined through an auction process, with auctions typically held every 7, 28, or 35 days or at longer intervals, depending on the issue.

Potential holders may enter bids that specify the lowest rate at which they are willing to purchase ARS and the desired par amount. Existing holders may enter bids that specify the lowest rate at which they are willing to continue to hold an existing ARS position. Existing holders may also enter bids that reflect their interest to buy a larger position in the specific ARS. Finally, existing holders can enter an order to sell their position.

Each hold or buy order is ranked by the associated rate and desired-par quantity and compared to the number of sell orders to determine whether a "clearing rate" can be established. The clearing rate is the lowest rate that matches the volume of buy orders with that of sell and hold-at-rate orders at an auction. Buy- and hold-order volume must also be at least equal to the issuer's principal or par value for the specific ARS issue.

Bid rates below the clearing rate will buy the desired quantity at the clearing rate. Bids that match the clearing rate, however, may buy only a portion of the desired quantity at the clearing rate. Existing holders who enter bids that exceed the clearing rate will be forced to sell. Bids from potential holders that are higher than the clearing rate will not be allocated ARS during the auction.

* Wells Fargo Advisors is not a tax advisor. Please consult a tax professional.

Sell orders from existing ARS holders will be executed if there is sufficient bidding interest to establish a clearing rate. If no clearing rate is established, the auction "fails" and the maximum rate as described in the offering documents is applied until a successful auction is conducted (i.e., an auction at which a clearing rate is established). In the event of a failed auction, investors who entered sell orders into the auction may be forced to hold some or all of the ARS at the maximum rate. Investors may not be able to sell ARS between auctions.

Types of orders at an auction

There are four different types of auction bids or orders that may be entered, depending on whether the bidder is an "existing holder" or is a "potential holder":

Hold-at-any-rate. Orders may be placed only by existing holders who wish to hold ARS, regardless of the rate set at auction. Existing investors who do not affirmatively enter one of the three other order types are deemed to have entered a hold-at-any-rate order. Because of this "deemed to hold-at-any-rate" feature, existing holders may continue to hold ARS until final maturity or perpetually if they do not specify some other order type and the issuer does not call the ARS. If all orders entered for ARS are hold-at-any-rate orders (whether affirmatively entered or deemed from the lack of a specific order), a minimum or "all-hold" rate (see "All-Hold Auctions" description under "Risks of Investing in ARS" on page 8), will be set for that period. An all-hold rate is likely to be lower than a rate set at an active auction with multiple parties bidding at specified rates.

Hold-at-rate. Orders may be placed only by existing holders who wish to continue to hold ARS at or above the bid rate specified on the order. Investors will continue to hold ARS if the rate they submit to the auction is below the rate set at the auction. Investors entering a hold-at-rate order will sell if their desired rate is above the rate the auction produces. If the hold-at rate entered by an investor is equal to the clearing rate, they will retain some or all of the ARS, depending on the number of bonds or shares available at the clearing rate and the allocation procedures of the specific ARS issue.

Buy-at-rate. Orders may be placed by existing and potential holders who wish to buy at a specified rate. If the clearing rate is below the rate specified on the order, buy-at-rate orders will not be filled. ARS are allocated on a pro rata basis. Existing holders with bids at the clearing rate receive allocations prior to potential holders with bids at the clearing rate. As a consequence, buy-at-rate orders may buy only part of the desired par value if there are multiple bids at the clearing rate.

Sell-at-any-rate. Orders may be placed only by existing holders who intend to sell ARS regardless of the rate set at auction. Sell orders will be executed in an auction only if the auction is successful (i.e., a clearing rate is established).

Key terms of the auction process

Maximum and minimum rates. ARS have a specified maximum and minimum rate that will be established for each auction as described in the issue's offering materials. These rates are usually established as a certain basis-point variation from, or percentage of, a short-term interest-rate index (such as the London

Interbank Offered Rate (LIBOR) or a Treasury index rate based on the average yield to maturity of U.S. Treasury securities whose maturities are approximately the same as the length of the rate period). The maximum rate may also be referred to as the "cap" on a successful auction rate or the "failed auction rate," while the minimum rate may be referred to as the "all-hold rate" (see discussions that follow). Auction orders equal to or greater than the maximum rate and those at or less than the minimum rate will be rejected by the auction agent.

Failed auction. A failed auction usually occurs when there are more sell orders than bidding interest, resulting in the inability to set a clearing rate. In the event of a failed auction, existing investors who placed "sell-at-any-rate" orders may not sell, but instead may be forced to continue to hold all or part of ARS at the maximum rate, as described in the offering documents.

All-hold rate. In the event that all investors submit, or are deemed to submit, hold-at-any-rate orders, investors will continue to hold at the minimum rate, as described in the offering documents. This rate will likely be lower than the rate established at a successful auction.

Flex-out auctions. Issuers can, under certain conditions, establish a new, special rate period by extending or "flexing out" the frequency of auction dates. This could result in a change of the auction cycle from weekly to as much as five years or longer between auctions. In order to announce a flex-out and declare the new, special rate period, the issuer must meet conditions, including a successful auction at the most recent prior auction, timely payment of coupons, and notification to the auction agent and rating agencies. Also, the issuer must often consult with the lead manager of an issue before a special rate period can begin. Finally, special rate or flex-out periods may include a noncallable period or a premium callable period that prohibits or limits the ability of the issuer to redeem or call the ARS issue during the special rate period. Once conditions have been met for the special rate period, an auction is held to set rates for the new period. If a successful flex-out auction occurs, no additional auctions will take place until the new special or flexed-out auction date. (See "Account Statement Pricing" under "Risks of Investing in ARS" on page 9.)

Deadlines for submission of auction orders

Each auction has a formal time called the "submission deadline" by which all orders must be submitted from Wells Fargo Advisors to the auction agent. Wells Fargo Advisors also imposes an earlier deadline — called the "internal submission deadline" — by which existing or potential holders must submit orders to Wells Fargo Advisors so that the firm has sufficient time to process and enter orders in compliance with the submission deadline. The internal submission deadline is subject to change by Wells Fargo Advisors. Wells Fargo Advisors may allow for correction of clerical errors after the internal submission deadline and prior to the submission deadline. Some auction agents allow for the correction of clerical errors for a specified period of time after the submission deadline. To the extent permitted by an auction agent, Wells Fargo Advisors may seek the correction of a clerical error after the submission deadline. Wells Fargo Advisors may submit orders for its own account at any time until the submission deadline.

Aggregation of auction orders

Wells Fargo Advisors, within its sole and exclusive discretion, may aggregate orders of the same type and at the same rate when submitting orders to auction agents prior to the submission deadline. When customer orders are aggregated and an auction agent reports a transaction resulting from the auction that is less than the total amount of firm and aggregated customer orders submitted, Wells Fargo Advisors must allocate the reported auction transaction among the orders submitted. In these cases, Wells Fargo Advisors allocates auction transactions randomly among orders for its own account and customers participating in an aggregated order. While under no obligation to do so, Wells Fargo Advisors may choose to defer a random allocation to its own account in favor of allocating to aggregated customer orders, within its sole and exclusive discretion. These allocation procedures apply whenever customer orders are aggregated and whether an auction fails or successfully establishes a clearing rate.

Orders entered on an auction date up to the Wells Fargo Advisors internal submission deadline will be submitted to the auction agent to be entered into the auction. Wells Fargo Advisors will not submit orders to the auction agent if a customer cancellation is received prior to the Wells Fargo Advisors internal submission deadline. Successful buys and sells at an auction are executed at par and settle the next business day (trade date + 1). Orders received after the internal submission deadline for a specific auction will be cancelled. In the event that a trade is effected between auctions, it also normally settles on the next business day (trade date + 1). Contact your financial advisor to obtain the specific time of Wells Fargo Advisors' internal submission deadline.

Price talk

Before an auction, Wells Fargo Advisors may, but is not obligated to, make a good faith judgment of the likely range of clearing rates available to customers that are existing or potential holders of ARS through a process referred to as a "price talk." Price talk is provided by the firm's financial advisors to customers who are existing or potential holders and who wish to receive this information.

Price-talk estimates do not assure that the rate produced by an auction will fall within the range, and existing and potential holders are free to use or ignore the information. If price talk is made available, Wells Fargo Advisors will make the price talk available to all customers who are existing and prospective holders who wish to receive this information. Wells Fargo Advisors may revise its price-talk estimates to reflect factors such as a change in issuer credit quality or due to macroeconomic conditions that will likely influence the interest-rate environment, such as a change in the Federal Open Market Committee's target federal-funds rate or the release of employment data from the Bureau of Labor Statistics. Wells Fargo Advisors will attempt to distribute any revised price talk in a manner similar to that used to deliver the initial price-talk estimates, but cannot assure that price talk or updates to price talk will be received by customers in a timely fashion.

Notice of auction results

Wells Fargo Advisors provides auction results on its public website at wellsfargoadvisors.com/auctionrates. Results will be updated the next business day following the auction. Auction-rate securities confirmations will also direct clients to the firm's online auction results and disclosure information.

ARS sample auction scenarios

Successful auction — total par amount: $10 million

Order type	Bid rate	Amount bid/(sold)	Auction results
Hold at any rate	Any	$6 million	$6 million held at 1.50% clearing rate
Buy at rate	1.25%	$3 million	$3 million bought at 1.50% clearing rate
Sell at any rate	Any	($1 million)	$1 million sold
Hold at rate*	1.50%	$3 million	$2 million sold; $1 million held at 1.50% clearing rate
Buy at rate	1.50%	$2 million	None

Note: Maximum rate = 6%; minimum rate = 0.5%; price talk = 1.25%-1.75%

*Represents "clearing rate" in sample scenario.

Explanation of a successful auction

In the hypothetical auction-scenario above, the $3 million order to hold at a 1.5% rate provides the clearing rate, but retains only $1 million. This is because there is $9 million in bidding interest from holders as well as buyers willing to accept rates lower than 1.5%. There are two bidders at a 1.5% level, but the order from the existing holder takes priority over bids from potential holders at the same rate.

Failed auction — total par amount: $10 million

Order type	Bid rate	Amount bid/(sold)	Auction results
Hold at any rate	Any	$1 million	$1 million held at max rate
Buy at rate	1.25%	$3 million	$3 million bought at max rate
Sell at any rate	Any	($6 million)	$5 million sold; $1 million held at max rate
Hold at rate	1.50%	$3 million	$3 million held at max rate
Buy at rate	1.50%	$2 million	$2 million bought at max rate

Note: Failed auction triggers maximum rate of 6% for this auction cycle; minimum rate = 0.5%; price talk = 1.25%-1.75%

Explanation of a failed auction

In this scenario, the auction fails because there is only $9 million in total bidding interest for the $10 million auction. As a result, the investor attempting to sell $6 million sells only $5 million and must retain $1 million at the maximum rate as described in the issue's official statement (OS) or prospectus. In the event of

multiple sellers at a failed auction, the bidding volume may be allocated by one of two methods, depending on the specific issue and the practices of its auction agent. Such allocation may be random or proportional among sellers, with each at risk of retaining some or all of their position at the maximum rate.

Risks of investing in ARS

The various risks described below are associated with buying, selling, and owning ARS. Specific risks may vary from issue to issue. Ask your financial advisor for the offering documents for the specific security.

Complex securities. ARS are complex securities with unique terms, conditions, features, and practices that can impact investment results. Investors should understand ARS, how auctions work, and the potential impact of a decision to either actively bid or passively hold ARS, as well as the potential impact of the actions Wells Fargo Advisors or other auction participants may have on investment results.

Long-term maturity. ARS are long-term bonds or preferred stock; therefore, ARS may be owned and pay coupons or dividends until the final maturity or in perpetuity to the extent that the issuer can, in fact, pay coupons or dividends. The rate you receive if you hold an ARS until its final maturity could be less than what could have been earned on comparable long-term investments.

Failed auctions. Wells Fargo Advisors does not guarantee a successful auction; auctions can fail and, in the event of a failed auction, existing investors — even those who placed sell-at-any-rate orders — may not sell, but instead may continue to hold all or part of their ARS at the maximum rate, as described in the offering documents. If an auction fails, there may not be a market between auctions.

All-hold auctions. As the all-hold rate is usually less than the rate set at a competitive auction and less than comparable market rates that could be earned on other ARS or other short-term investments, investors risk earning a lower rate until a successful auction can be conducted. Wells Fargo Advisors does not guarantee that all-hold auctions will not occur, and there may not be a market between auctions for ARS paying the “all-hold” rate.

Flex-out auctions. Unlike regular auctions, existing holders who are silent or otherwise do not affirmatively enter orders at a flex-out auction will be deemed to enter a sell-at-any-rate order. If the flex-out auction fails, the special rate period is cancelled and the maximum rate, as described in the offering documents, is applied until a successful auction on the initial or previous auction cycle occurs. Rates on ARS that have flexed out will be fixed for the length of the new special or flexed-out period. Investors who elect to hold at a flexed-out auction are subject to extension risk because they may not be able to sell until the new flexed-out auction. The change in the treatment of existing holders who do not affirmatively enter an order in a flex-out auction (i.e., deemed to select a sell order instead of a hold-at-any-rate order) acknowledges the significant change in the investment characteristics of an ARS that has been flexed-out.

Reinvestment risk. Investors owning ARS who enter orders into auctions at a stated rate (i.e., hold-at-rate orders) may sell the quantity of the ARS bid to Wells Fargo Advisors or others and be subject to reinvesting the proceeds at lower rates. Also, ARS are callable by the issuer, at the issuer's sole and exclusive discretion. When ARS are called, investors are subject to the risk of reinvesting the proceeds at lower interest rates.

Market for ARS outside of auction. The ability to buy or sell ARS between auction dates is limited. Wells Fargo Advisors may purchase or sell ARS for its own account from or to the customer following the initial distribution by the issuer. However, Wells Fargo Advisors has no obligation and does not ensure that it or others will trade ARS outside of auction. To the extent that a transaction in ARS can be effected outside of auction, the price received may be less than the amount originally invested, depending on market conditions for the given ARS.

Limitations on auction bidding rights. If ARS are transferred to another broker-dealer that does not have an agreement with the issuer and auction agent or the ability to enter orders through another broker-dealer for the specific ARS, you may not be able to enter an order or sell at a periodic auction. In these circumstances an existing holder's ability to resell the securities in or outside of auction may be limited to the willingness of the broker-dealer through whom the securities were originally purchased to arrange for the submission of an auction order or to purchase the securities.

Account statement pricing. Wells Fargo Advisors follows specific practices for pricing ARS on monthly account statements. Current information regarding Wells Fargo Advisors pricing practices, changes that may occur in these practices and how changes in statement pricing may affect holders of ARS may be found at wellsfargoadvisors.com/disclosures/auction-rate-securities.htm.

Credit risk. A rating agency could downgrade the credit rating on an ARS issue, thus making the shares less liquid at an auction or outside of auction. The creditworthiness of auction-rate preferred shares is a reflection of the assets in the investment company. The assets held by the investment company can vary in quality and maturity based on the investment practices described in the prospectus. Investment companies that issue ARS must meet an asset coverage requirement of at least 200% under the Investment Company Act of 1940.

Alternative minimum tax (AMT). Some investors may be subject to the AMT.*

Broker-dealer role in the auction process

The interests of Wells Fargo Advisors in conducting an auction may differ from those of existing and potential holders who participate in auctions through Wells Fargo Advisors. As a broker-dealer participating in an auction, Wells Fargo Advisors receives compensation from the issuer or another broker-dealer that participates in the auction for conducting each auction. The compensation received for each auction is based upon the principal amount of ARS held through Wells Fargo Advisors. This compensation is shared by the firm with the Financial Advisors who sold the ARS to clients.

Wells Fargo Advisors may submit orders in auctions for its own account either as a bidder or a seller, though it has no obligation to do so. Wells Fargo Advisors would have knowledge of other orders placed through Wells Fargo Advisors in that auction and as a result could have an advantage in determining the rate and size of its own order.

Wells Fargo Advisors may place one or more bids in an auction and acquire the securities for its own account. Wells Fargo Advisors' bid may be inside or outside the range that it posts in its price talk. Wells Fargo Advisors may place bids for its own account to avoid a failed auction, thereby allowing the issuer to avoid paying the maximum rate. Wells Fargo Advisors may place bids for its own account to avoid an auction clearing at the all-hold rate or a rate the firm does not believe reflects the market for a given security. Wells Fargo Advisors also may encourage bidding by others in auctions for similar purposes, even after Wells Fargo Advisors obtains knowledge of some or all of the other orders submitted through it. Investors should also be aware that bids by Wells Fargo Advisors or by those it may encourage to place bids may cause unfavorable rates to be established in an auction.

Wells Fargo Advisors has, in the past, routinely placed bids in an auction to prevent a failed auction or an all-hold auction. As a result of the ongoing uncertainty in the market, the firm has suspended this practice. Whether the firm places bids in the future for such purposes remains within the sole discretion of the firm.

In addition to affecting the clearing rate at an auction, bids by Wells Fargo Advisors or others the firm encourages to bid could affect the allocation of securities being auctioned. Such practices may prevent allocations to other interested bidders whose bids may be unsuccessful (i.e., forcing them to sell ARS they own or not allowing the purchase of ARS they wish to acquire) or may reduce the allocations these other interested bidders receive.

Therefore, the fact that an auction clears successfully does not mean that an investment in the security involves no significant market or credit risk. Wells Fargo Advisors is not obligated to continue to place bids or encourage other bidders to do so in any particular auction. Wells Fargo Advisors is not obligated to prevent an auction from failing or being established at an all-hold rate. Wells Fargo Advisors is not obligated to prevent an auction from producing a rate that Wells Fargo Advisors believes does not reflect the market for the securities. Investors should not assume that Wells Fargo Advisors will bid in any particular fashion or for any particular purpose, or that a failed or all-hold auction will not occur.

* Wells Fargo Advisors is not a tax advisor. Please consult a tax professional.

Regulatory matters and investigations

In the course of its banking and financial-services businesses, Wells Fargo and its affiliates, including Wells Fargo Advisors, are subject to information requests and investigations by governmental and self-regulatory authorities. For a detailed discussion regarding regulatory matters and investigations, please see Wells Fargo & Company's most recent form 10-K or 10-Q.

For a list of risk factors to consider with respect to the businesses and securities of Wells Fargo & Company, please see the most recent Form 10-K.

Wells Fargo Advisors is ready to help you

Your financial advisor at Wells Fargo Advisors can present investment alternatives for you to consider and can help to determine whether ARS are appropriate for your investment portfolio. Ask for a copy of the offering documents for a specific issue and the "Auction Practices and Procedures Disclosure of Wells Fargo Advisors" before deciding to purchase any ARS.