

WELLS FARGO ADVANTAGE MULTI-SECTOR INCOME FUND  
Form N-CSR  
December 28, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811- 21331

**Wells Fargo Advantage Multi-Sector Income Fund**

(Exact name of registrant as specified in charter)

**525 Market St., San Francisco, CA 94105**

(Address of principal executive offices) (Zip code)

**C. David Messman**

**Wells Fargo Funds Management, LLC**

**525 Market St., San Francisco, CA 94105**

(Name and address of agent for service)

Registrant's telephone number, including area code: 800-222-8222

Date of fiscal year end: October 31, 2012

Date of reporting period: October 31, 2012



ITEM 1. REPORT TO SHAREHOLDERS

# **Wells Fargo Advantage Multi-Sector Income Fund**

## **Annual Report**

October 31, 2012

**This closed-end fund is no longer offered as an initial public offering and is only offered through broker/dealers on the secondary market. A closed-end fund is not required to buy its shares back from investors upon request.**

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The views expressed and any forward-looking statements are as of October 31, 2012, unless otherwise noted, and are those of the Fund managers and/or Wells Fargo Funds Management, LLC. Discussions of individual securities, or the markets generally, or any Wells Fargo Advantage Fund are not intended as individual recommendations. Future events or results may vary significantly from those expressed in any forward-looking statements; the views expressed are subject to change at any time in response to changing circumstances in the market. Wells Fargo Funds Management, LLC, disclaims any obligation to publicly update or revise any views expressed or forward-looking statements.

**NOT FDIC INSURED ; NO BANK GUARANTEE ; MAY LOSE VALUE**

**Karla M. Rabusch**

President

Wells Fargo Advantage Funds

**During the period, global fixed-income markets fluctuated between periods of risk aversion and corresponding recoveries in investor confidence that drove bond prices higher and yields lower.**

**Dear Valued Shareholder:**

We are pleased to offer you this annual report for the *Wells Fargo Advantage Multi-Sector Income Fund* for the 12-month period that ended October 31, 2012. Upon reviewing the report, you may notice that your Fund has included a summary portfolio schedule in lieu of a complete portfolio schedule, which we hope will help you focus on your Fund's principal holdings and assist you in evaluating your Fund's risk profile and investment strategy. For those investors who wish to see it, the Fund's full portfolio is still available upon request or via [wellsfargoadvantagefunds.com](http://wellsfargoadvantagefunds.com) or the web link found on the summary portfolio schedule.

During the period, global fixed-income markets fluctuated between periods of risk aversion and corresponding recoveries in investor confidence that drove bond prices higher and yields lower. On the whole, global bond markets generated positive returns during the period, benefiting from strong rallies over the final three months of the period in the corporate bond and securitized sectors. The lower-rated credit tiers and longest-maturity segments of the fixed-income markets outperformed the higher-quality and shorter-maturity segments during the period, overcoming spates of risk aversion that temporarily damaged security valuations in the spring months of 2012.

**Global credit markets were roiled by the European debt crisis.**

The 12-month period began on the heels of an escalating credit crisis in Europe that crescendoed in August 2011 and echoed into September 2011. October 2011 saw a modest recovery with the formal announcement of a European debt deal late in the month. These leading events set the tone for the 12-month period that began in November 2011. The prospect of a default in Greek bonds resurfaced in November 2011, stirring waves of global risk aversion that led to resurgent rallies in U.S. Treasuries with declines in the prices of riskier sovereign bonds in Europe and a sharp decline in high-yield bond prices across the globe.

Fortunately, risk aversion abated in December 2011 with a strong recovery in bond pricing that seemed to bolster investor confidence and fortified a trend of declining spreads that carried into the first two months of 2012. Most investment-grade global fixed-income markets continued to generate positive returns during these months, but were nonetheless hindered by spates of risk aversion that would routinely flare up and demand further intervention from central banks in Europe and the U.S. The global bond markets were enthralled to central bank policies in Europe—decisive policymaking would bolster markets while re-escalating crises in Greece and Spain would undercut confidence.

**Improving economic trends burgeoned in the U.S. while Europe fell into recession.**

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The first months of 2012 saw strengthening investor confidence in the U.S. economy despite indications of a recession in Europe. The improving conditions in the U.S. led to greater confidence in the U.S. credit markets, which began to show some resistance to the credit problems of Europe. During these months, the lowest-rated credit tiers of the U.S. domestic fixed-income markets generally performed the best, while the highest-quality credit tiers and U.S. Treasuries generally declined in value as their yields began to shift higher on expectations for a strengthening economy. In Europe, trends were not as pronounced but growing confidence in the U.S. financial system did generally inspire renewed confidence in the valuations of bonds across the globe.

Unfortunately, the trends of improving credit confidence would, once again, be undermined by the woes of Europe. As Greece neared default on its sovereign debt again, politicians began to hint at the possibility of exiting the euro. By early

Letter to shareholders (unaudited)

Wells Fargo Advantage Multi-Sector Income Fund 3

May 2012, the default crisis in Europe had escalated to a debate over the viability of the euro, amplifying the crisis to an unprecedented level of worst-case consideration. Consequently, global investors once again rallied to the U.S. Treasury market, driving long-term yields to some of their lowest levels on record. That same month, U.S. Treasuries and the highest-rated credit tiers were the best performers, while the lower-rated credit tiers of the global fixed-income markets generally performed positively but underperformed those sectors.

For several weeks it appeared that investors would continue to prefer higher-quality over riskier asset classes as long as the problems in Europe persisted. The crisis continued to deepen into July 2012, prompting the International Monetary Fund to warn European policymakers of a significant risk of deflation. Running counter to the woes in Europe, U.S. credit markets began to improve in June 2012, benefiting from consistent policy commitment by the Federal Reserve to maintain highly accommodative monetary conditions. In the U.S., the second half of June 2012 and the entire month of July 2012 saw strong performance in the lower-rated and longer-maturity segments of the fixed-income markets as U.S. credit markets tried to remain isolated from the crisis in Europe.

European markets finally followed suit in August 2012 and into September and October 2012 as the European Central Bank (ECB) calmed market fears by announcing a program of unlimited bond-buying support and declaring to do whatever it takes to preserve the euro. Perhaps the most convincing statement of all for investors was Mario Draghi, the president of the ECB, declaring that the euro is irreversible. Global credit markets responded strongly through the final months of the period, with the lowest-rated securities performing best, most notably high-yield corporate bonds and emerging markets debt. Thus, despite intermittent spikes in risk aversion and profound concerns in Europe, the 12-month period finished with a convincing positive trend of strong performance across the global fixed-income markets.

**Recent events have not altered our message to shareholders.**

The heightened volatility across the global financial markets during the final months of 2011 and much of 2012 and lingering uncertainties about the outlook going forward have left many investors questioning their resolve and their investments. Yet, it is precisely at such times that the market may present opportunities as well as challenges for prudent investors. For many investors, simply building and maintaining a well-diversified<sup>1</sup> investment plan focused on clear financial objectives is the best long-term strategy.

Thank you for choosing to invest with *Wells Fargo Advantage Funds*. We appreciate your confidence in us and remain committed to helping you meet your financial needs. For current information about your Fund investments, contact your investment professional, visit our website at [wellsfargoadvantagefunds.com](http://wellsfargoadvantagefunds.com), or call us directly at **1-800-222-8222**. We are available 24 hours a day, 7 days a week.

Sincerely,

Karla M. Rabusch

President

Wells Fargo Advantage Funds

**Despite intermittent spikes in risk aversion and profound concerns in Europe, the 12-month period finished with a convincing positive trend of strong performance across the global fixed-income markets.**



1. Diversification does not assure or guarantee better performance and cannot eliminate the risk of investment losses.

**Investment objective**

The Fund seeks a high level of current income consistent with limiting its overall exposure to domestic interest-rate risk.

**Adviser**

Wells Fargo Funds Management, LLC

**Subadvisers**

First International Advisors, LLC

Wells Capital Management Incorporated

**Portfolio managers**

Michael Bray, CFA

Christopher Y. Kauffman, CFA

Michael Lee

Niklas Nordenfelt, CFA

Anthony Norris

Alex Perrin

Janet S. Rilling, CFA, CPA

Phillip Susser

Christopher Wightman

Peter Wilson

**Average annual total returns<sup>1</sup> (%) as of October 31, 2012**

	1 Year	5 Year	Since inception 6-25-03
Based on market value	19.33	11.86	7.82
Based on net asset value (NAV) per share	13.69	9.28	8.71

**Figures quoted represent past performance, which is no guarantee of future results and do not reflect the deduction of taxes that a shareholder may pay on fund distributions or the sales of fund shares. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted and assumes the reinvestment of dividends and capital gains. To obtain performance information current to the most recent month-end, please call 1-800-222-8222.**

The Fund's annualized expense ratio for the year ended October 31, 2012, is 1.24%, which includes 0.11% of interest expense.

Comparison of NAV vs. market value since inception<sup>2</sup>

The Fund is leveraged through a secured debt borrowing facility and may issue preferred shares. The use of leverage results in certain risks including, among others, the likelihood of greater volatility of net asset value and the market price of common shares. Foreign investments are especially volatile and can rise or fall dramatically due to differences in the political and economic conditions of the host country. These risks are generally intensified in emerging markets. Derivatives involve additional risks including interest rate risk, credit risk, the risk of improper valuation, and the risk of non-correlation to the relevant instruments they are designed to hedge or to closely track. Bond fund values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. In general, when interest rates rise, bond fund values fall and investors may lose principal value. High-yield securities have a greater risk of default and tend to be more volatile than higher-rated debt securities. This Fund is exposed to mortgage- and asset-backed securities risk.

1. Total returns based on market value are calculated assuming a purchase of common stock on the first day and sale on the last day of the period reported. Total returns based on NAV are calculated based on the NAV at the beginning of the period and end of period. Dividends and distributions, if any, are assumed for the purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan. Total returns do not reflect brokerage commissions or sales charges. If these charges were included, the returns would be lower.

2. This chart does not reflect any brokerage commissions or sales charges.

Performance highlights (unaudited)

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**MANAGER'S DISCUSSION**

The Fund returned 19.33% during the 12 months ended October 31, 2012, based on market value. During the same period, the Fund's return based on NAV was 13.69%.

**Strategy**

At the beginning of this period, the Fund announced several changes to the investment guidelines and strategies of each of its investment allocations or "sleeves" and the Fund as a whole. The investment allocation ranges changed for the High-yield bond sleeve, International/Emerging Markets sleeve, and the Mortgage/Corporate sleeve. The International/Emerging Markets sleeve strategy was changed to permit investing in emerging market debt securities. The Mortgage/Corporate sleeve strategy was changed to permit investing in fixed-rate mortgages and investment-grade corporate bonds. These changes, combined with other strategy changes, contributed to the Fund's performance.

Eurozone problems emanating from the euro-periphery countries continued to impact the non-core euro regions (countries outside of Germany, France, United Kingdom, Italy, Netherlands, Belgium, and Luxembourg) throughout the period, which fell back into recession as austerity programs took hold. However, with the European Financial Stability Facility (EFSF), European Stability Mechanism (ESM), Labor Market Training (LMT), Fiscal Compact, and single European Banking Regulation all in the pipeline and above all else the political will to keep the monetary union together, yield spreads from bonds issued by the periphery regions started to stabilize, as did the valuation of the euro. In general, riskier securities across the globe performed strongly, benefiting from continued policy interventions by the European Central Bank and the U.S. Federal Reserve Bank.

During the 12-month period, the international/emerging markets fixed-income portion of the Fund focused on income-oriented securities, specifically finding value in local developed and emerging markets with higher relative yields, yet healthy fundamental sources of cash flow. This positioning had a positive effect on the performance of the Fund as emerging markets debt and high-yield debt outperformed sovereign developed-market debt.

The high-yield asset class in the United States ironically behaved as a perceived safe-haven during a fluctuating and often uncertain economic environment, as investors swarmed into the asset class for a steady source of higher yields. High yield defaults have been low thanks to strong corporate fundamentals consisting of decent earnings, strong balance sheets with large cash positions, cheap and abundant financing, central bank policies encouraging low rates, and sustained liquidity and a manageable maturity schedule for issuers of high-yield bonds. The Fund's exposure to U.S. high-yield corporate bonds added to returns during the quarter.

In the U.S. investment-grade markets, corporate bonds and structured products generally outperformed U.S. Treasuries during the period as spreads rallied virtually across the board. Commercial mortgage-backed securities (CMBS) and corporate bonds, particularly in the A-rated and BBB-rated tiers, offered some of the best returns. Fixed-rate mortgage-backed securities (MBS) outperformed adjustable-rate mortgages (ARMs). The mortgage/corporate sleeve of the Fund continued to invest in MBS, asset-backed securities, ARMs, and corporate bonds. In general, the lower-rated segments of these sectors were the best contributors to performance during the period.

**Ten largest holdings<sup>3</sup> (%) as of October 31, 2012**

Poland, 5.25%, 10-25-20	2.72
Russia, 7.85%, 3-10-18	2.48
Hungary, 6.75%, 11-24-17	2.28
Brazil, 10.00%, 1-1-17	2.16
Mexico, 7.25%, 12-15-16	1.94
Texas Competitive Electric Holdings LLC, 3.75%, 10-10-14	1.91
Sprint Capital Corporation, 6.88%, 11-15-28	1.71
Indonesia, 7.38%, 9-15-16	1.56
Turkey, 0.00%, 2-20-13	1.53
South Africa, 6.50%, 2-28-41	1.28

**Contributors to performance**

The international/emerging markets bond allocation benefited from positioning in the higher-yielding bond markets of Brazil, Colombia, Hungary, Indonesia, Mexico, Poland, Russia, Turkey, and South Africa. Positioning in euro-denominated and British sterling-denominated investment-grade and high-yield corporate debt also added to value. The Fund's exposure to the high-yield and emerging market sectors were

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significant contributors to performance. Our currency allocations to the Chilean peso, Colombian peso, Korean won, Mexican peso, and Polish zloty also added value.

The U.S. high-yield bond portion of the Fund saw market forces pushing high-yield bond prices higher and yields lower. Individual credit selection in specific securities with the potential for significant price appreciation helped performance of the Fund during the period.

3. The ten largest holdings are calculated based on the value of the securities divided by total net assets of the Fund. Holdings are subject to change and may have changed since the date specified.

**Credit quality<sup>4</sup> as of October 31, 2012****Effective maturity distribution<sup>5</sup> as of October 31, 2012****Country allocation<sup>5</sup> as of October 31, 2012**

The mortgage/corporate credit sleeve's focus on A-rated and BBB-rated credits added value as lower-rated credits outperformed the higher-rated credits during the period. The Fund's holdings in corporate bonds, CMBS, and residential MBS broadly added value during the period, as credit spreads tightened. Financial sector fixed-income securities contributed to performance.

**Detractors from performance**

Currency exposure to the Brazilian real, Indonesian rupiah, and South African rand detracted from performance during the period.

The U.S. high-yield bond portion of the Fund maintained a relatively conservative positioning compared with the broader U.S. high-yield market, as we anticipated challenging economic conditions. This positioning restrained performance as riskier bonds with either lower quality or longer maturities generally outperformed their higher-quality high yield counterparts.

The mortgage/corporate credit sleeve held a slightly conservative duration positioning, preferring to add incremental yield through increased credit exposure rather than increased interest-rate risk. Consequently the lower-duration positioning restrained performance when the markets rallied and the long end of the U.S. Treasury yield curve shifted significantly lower. Duration and yield-curve positioning modestly detracted from performance.

4. The ratings indicated are from Standard & Poor's, Moody's Investors Service, and/or Fitch Ratings Ltd. 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). 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. 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 C (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). Moody's rates the creditworthiness of short-term securities from P-1 (highest) to P-3 (lowest). Fitch rates the creditworthiness of bonds, ranging from AAA (highest) to D (lowest). If a security was rated by all three rating agencies, the middle rating was utilized. If rated by two of three rating agencies, the lower rating was utilized and if rated by one of the agencies that rating was utilized. Credit quality is subject to change and is calculated based on the total investments of the Fund. We generally define higher-quality (investment grade) bonds as bonds having a rating above BBB/Baa and lower-quality bonds as bonds having a rating below BBB/Baa.

5. Percentages are subject to change and are calculated based on the total long-term investments of the Fund.

**Management outlook**

Global market conditions continue to appear characterized by high levels of both consumer and government debt in the old, developed economies that will likely continue to hinder growth. We continue to question where sustainable growth can emerge from in the largest economies. Thus, the international/emerging markets team's strategy continues to underweight the old, industrialized, lower-yielding economies with structural problems and overweight those economies that not only have higher yields but also have healthier, more sustainable growth, lower deficits (in some cases, surpluses), and central banks that have the ability to maneuver freely.

The high-yield team believes that the majority of U.S. companies within high yield have a sufficient cash cushion to absorb a slight recession before default risk would meaningfully increase. In the team's view, highly accommodative monetary policy combined with strong corporate balance sheets offers a complementary backdrop of liquidity for high-yield companies to weather a slower revenue-growing environment. We feel that the outlook for high-yield markets demonstrates the potential for continued positive performance but at a more modest pace, and that high yield remains a favorable investment alternative to lower-yielding areas of the fixed-income markets, albeit with additional risk.

Within U.S. mortgages and investment-grade corporate bonds, the team believes that stable interest-rate policy should continue to preserve a comfortable environment for relatively steady bond yields to offer relatively generous compensation from corporate bonds and securitized debt. We continue to focus on the medium-quality credit tiers of A-rated and BBB-rated securities as compelling sources of yield. Approximately 50% of the mortgage/corporate sleeves' exposure is in corporate fixed-income securities and around 40% is in fixed-rate and floating rate mortgage securities. Our credit exposure remains centered on industrials and financials, particularly in banks. We believe that continued highly accommodative monetary policy should continue to benefit the credit and securitized sectors in the upcoming 12-month period.

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Summary portfolio of investments October 31, 2012

The Summary Portfolio of Investments shows the 50 largest portfolio holdings in unaffiliated issuers and any holdings exceeding 1% of the total net assets as of the report date. The remaining securities held are grouped as "Other securities" in each category. You can request a complete schedule of portfolio holdings as of the report date, free of charge, by accessing the following website:

<http://a584.g.akamai.net/f/584/1326/1d/www.wellsfargoadvantagefunds.com/pdf/ann/holdings/multisectorincome.pdf> or by calling Wells Fargo Advantage Funds at 1-800-222-8222. This complete schedule, filed on the Form N-CSR, is also available on the SEC's website at sec.gov.

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Agency Securities: 3.44%</b>					
<i>FHLMC</i>	0.61-8.50%	4-1-15 to 7-25-48	\$ 28,061,618	\$ 14,388,160	2.01%
<i>FNMA</i>	0.56-12.00	1-1-16 to 5-25-42	9,161,054	9,760,504	1.37
<i>Other securities</i>				485,833	0.06
<b>Total Agency Securities (Cost \$23,143,513)</b>				24,634,497	3.44
 <b>Asset-Backed Securities: 0.14%</b>					
<i>Other securities</i>				1,003,067	0.14
<b>Total Asset-Backed Securities (Cost \$961,331)</b>				1,003,067	0.14
 <b>Common Stocks: 0.07%</b>					
<b>Consumer Discretionary: 0.00%</b>					
<b>Hotels, Restaurants &amp; Leisure: 0.00%</b>					
<i>Other securities</i>				2,322	0.00
 <b>Telecommunication Services: 0.07%</b>					
<b>Diversified Telecommunication Services: 0.07%</b>					
<i>Other securities</i>				517,044	0.07
<b>Total Common Stocks (Cost \$1,617,838)</b>				519,366	0.07
 <b>Corporate Bonds and Notes: 58.85%</b>					
<b>Consumer Discretionary: 13.26%</b>					
<b>Auto Components: 1.20%</b>					
<i>Goodyear Tire &amp; Rubber Company</i>	7.00-8.75	8-15-20 to 5-15-22	868,000	945,415	0.13



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<i>Other securities</i>				7,633,532	1.07
				8,578,947	1.20
<b>Diversified Consumer Services: 1.41%</b>					
<i>Service Corporation International</i>	6.75-8.00	4-1-16 to 11-15-21	3,690,000	4,241,801	0.59
<i>Service Corporation International</i>	7.50	4-1-27	3,965,000	4,222,725	0.59
<i>Other securities</i>				1,639,225	0.23
				10,103,751	1.41
<b>Hotels, Restaurants &amp; Leisure: 3.38%</b>					
<i>CCM Merger Incorporated 144A</i>	9.13	5-1-19	4,000,000	3,990,000	0.56
<i>DineEquity Incorporated</i>	9.50	10-30-18	3,475,000	3,913,719	0.55
<i>Greektown Superholdings</i>	13.00	7-1-15	4,125,000	4,429,219	0.62
<i>Other securities</i>				11,843,266	1.65
				24,176,204	3.38
<b>Household Durables: 0.07%</b>					
<i>Other securities</i>				489,844	0.07
<b>Internet &amp; Catalog Retail: 0.12%</b>					
<i>Other securities</i>				827,474	0.12

The accompanying notes are an integral part of these financial statements.

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Summary portfolio of investments October 31, 2012

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Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Media: 6.05%</b>					
<i>Gray Television Incorporated 144A</i>	7.50%	10-1-20	\$ 3,270,000	\$ 3,229,125	0.45%
<i>Gray Television Incorporated</i>	10.50	6-29-15	5,175,000	5,592,105	0.78
<i>Local TV Finance LLC 144A</i>	9.25	6-15-15	4,775,000	4,852,594	0.68
<i>Other securities</i>				29,632,129	4.14
				43,305,953	6.05
<b>Specialty Retail: 1.03%</b>					
<i>Other securities</i>				7,355,983	1.03
<b>Consumer Staples: 0.55%</b>					
<b>Food &amp; Staples Retailing: 0.10%</b>					
<i>Other securities</i>				659,284	0.10
<b>Food Products: 0.34%</b>					
<i>Other securities</i>				2,445,869	0.34
<b>Tobacco: 0.11%</b>					
<i>Other securities</i>				798,326	0.11
<b>Energy: 9.59%</b>					
<b>Energy Equipment &amp; Services: 2.30%</b>					
<i>Other securities</i>				16,452,038	2.30
<b>Oil, Gas &amp; Consumable Fuels: 7.29%</b>					
<i>El Paso Corporation</i>	6.50-7.80	6-15-17 to 2-15-37	6,280,000	7,295,812	1.03
<i>Rockies Express Pipeline 144A</i>	3.90-7.50	4-15-15 to 4-15-40	8,563,000	7,769,310	1.09
<i>Sabine Pass LNG LP 144A</i>	6.50	11-1-20	3,720,000	3,794,400	0.53
<i>Sabine Pass LNG LP</i>	7.50	11-30-16	3,750,000	4,096,875	0.57
<i>Other securities</i>				29,187,378	4.07
				52,143,775	7.29
<b>Financials: 11.70%</b>					
<b>Capital Markets: 1.08%</b>					
<i>E*TRADE Financial Corporation</i>	12.50	11-30-17	4,291,000	4,859,558	0.68
<i>Other securities</i>				2,886,057	0.40
				7,745,615	1.08
<b>Commercial Banks: 1.27%</b>					

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<i>Other securities</i>				9,084,125	1.27
<b>Consumer Finance: 4.97%</b>					
<i>GMAC LLC</i>	7.50	12-31-13	3,620,000	3,841,725	0.54
<i>JBS USA Finance Incorporated</i>	11.63	5-1-14	3,745,000	4,194,400	0.59
<i>Nielsen Finance LLC Company</i>	7.75	10-15-18	5,100,000	5,737,500	0.80
<i>Springleaf Finance Corporation</i>	6.90	12-15-17	4,620,000	4,065,600	0.57

The accompanying notes are an integral part of these financial statements.

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Consumer Finance (continued)</b>					
<i>Other securities</i>				\$ 17,707,849	2.47%
				35,547,074	4.97
<b>Diversified Financial Services: 1.94%</b>					
<i>Other securities</i>				13,904,243	1.94
<b>Insurance: 0.50%</b>					
<i>Other securities</i>				3,576,220	0.50
<b>Real Estate Management &amp; Development: 0.27%</b>					
<i>Other securities</i>				1,925,375	0.27
<b>REITs: 1.67%</b>					
<i>Dupont Fabros Technology Incorporated</i>	8.50%	12-15-17	\$ 5,560,000	6,116,000	0.85
<i>Other securities</i>				5,797,271	0.82
				11,913,271	1.67
<b>Health Care: 3.44%</b>					
<b>Biotechnology: 0.11%</b>					
<i>Other securities</i>				805,466	0.11
<b>Health Care Equipment &amp; Supplies: 0.41%</b>					
<i>Other securities</i>				2,954,036	0.41
<b>Health Care Providers &amp; Services: 2.28%</b>					
<i>Other securities</i>				16,288,465	2.28
<b>Life Sciences Tools &amp; Services: 0.13%</b>					
<i>Other securities</i>				896,998	0.13
<b>Pharmaceuticals: 0.51%</b>					
<i>Other securities</i>				3,673,381	0.51
<b>Industrials: 2.66%</b>					
<b>Aerospace &amp; Defense: 0.23%</b>					
<i>Other securities</i>				1,670,188	0.23

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<b>Air Freight &amp; Logistics: 0.21%</b> <i>Other securities</i>	1,527,525	0.21
<b>Airlines: 0.11%</b> <i>Other securities</i>	783,475	0.11
<b>Commercial Services &amp; Supplies: 1.28%</b> <i>Other securities</i>	9,127,740	1.28
<b>Machinery: 0.53%</b> <i>Other securities</i>	3,783,414	0.53

The accompanying notes are an integral part of these financial statements.

Summary portfolio of investments October 31, 2012

Wells Fargo Advantage Multi-Sector Income Fund 11

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Professional Services: 0.28%</b> <i>Other securities</i>				\$ 2,002,260	0.28%
<b>Transportation Infrastructure: 0.02%</b> <i>Other securities</i>				136,500	0.02
<b>Information Technology: 4.91%</b>					
<b>Communications Equipment: 0.31%</b> <i>Other securities</i>				2,196,138	0.31
<b>Computers &amp; Peripherals: 0.48%</b> <i>Other securities</i>				3,453,549	0.48
<b>Electronic Equipment, Instruments &amp; Components: 1.25%</b> <i>Jabil Circuit Incorporated</i>	8.25%	3-15-18	\$ 5,275,000	6,224,500	0.87
<i>Other securities</i>				2,695,684	0.38
				8,920,184	1.25
<b>Internet Software &amp; Services: 0.18%</b> <i>Other securities</i>				1,276,750	0.18
<b>IT Services: 2.44%</b> <i>First Data Corporation</i>	11.25	3-31-16	3,720,000	3,636,300	0.51
<i>SunGard Data Systems Incorporated</i>	6.63-10.25	8-15-15 to 11-15-20	7,205,000	7,480,090	1.05
<i>Other securities</i>				6,342,188	0.88
				17,458,578	2.44
<b>Software: 0.25%</b> <i>Other securities</i>				1,815,674	0.25
<b>Materials: 1.17%</b>					
<b>Chemicals: 0.46%</b> <i>Other securities</i>				3,319,114	0.46
<b>Containers &amp; Packaging: 0.30%</b> <i>Other securities</i>				2,164,250	0.30
<b>Metals &amp; Mining: 0.09%</b>					

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<i>Other securities</i>				610,353	0.09
<b>Paper &amp; Forest Products: 0.32%</b>					
<i>Other securities</i>				2,273,068	0.32
<b>Telecommunication Services: 7.78%</b>					
<b>Diversified Telecommunication Services: 3.56%</b>					
<i>GCI Incorporated</i>	6.75-8.63	11-15-19 to 6-1-21	6,050,000	6,500,000	0.91
<i>Intelsat Jackson Holdings Limited</i>	8.50	11-1-19	850,000	954,125	0.13
<i>Syniverse Holdings Incorporated</i>	9.13	1-15-19	5,005,000	5,330,325	0.75
<i>Other securities</i>				12,712,523	1.77
				25,496,973	3.56

The accompanying notes are an integral part of these financial statements.

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12 Wells Fargo Advantage Multi-Sector Income Fund

Summary portfolio of investments October 31, 2012

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Wireless Telecommunication Services: 4.22%</b>					
<i>Crown Castle Towers LLC</i>	5.25-9.00%	1-15-15 to 1-15-40	\$ 2,150,000	\$ 2,376,910	0.33%
<i>Sprint Nextel Corporation</i>	5.95-11.50	3-15-14 to 3-15-32	4,890,000	5,509,131	0.78
<i>Sprint Capital Corporation</i>	6.88	11-15-28	11,985,000	12,254,663	1.71
<i>Other securities</i>				10,058,166	1.40
				30,198,870	4.22
<b>Utilities: 3.79%</b>					
<b>Electric Utilities: 1.74%</b>					
<i>Mirant Mid-Atlantic LLC Series C</i>	10.06	12-30-28	3,614,632	4,012,242	0.56
<i>Other securities</i>				8,404,194	1.18
				12,416,436	1.74
<b>Gas Utilities: 0.33%</b>					
<i>Other securities</i>				2,369,781	0.33
<b>Independent Power Producers &amp; Energy Traders: 1.51%</b>					
<i>Calpine Construction Finance Corporation 144A</i>	7.25	10-15-17	4,433,000	4,698,980	0.66
<i>Other securities</i>				6,081,398	0.85
				10,780,378	1.51
<b>Multi-Utilities: 0.21%</b>					
<i>Other securities</i>				1,531,107	0.21
<b>Total Corporate Bonds and Notes (Cost \$393,134,401)</b>				420,964,022	58.85
<b>Foreign Corporate Bonds and Notes @: 4.54%</b>					
<b>Consumer Discretionary: 0.63%</b>					
<b>Automobiles: 0.11%</b>					
<i>Other securities</i>				795,578	0.11
<b>Hotels, Restaurants &amp; Leisure: 0.35%</b>					
<i>Other securities</i>				2,516,257	0.35
<b>Media: 0.17%</b>					
<i>Other securities</i>				1,213,261	0.17
<b>Consumer Staples: 0.16%</b>					



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**Food & Staples Retailing: 0.16%**

<i>Other securities</i>				1,105,356	0.16
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**Financials: 2.96%**

**Commercial Banks: 2.44%**

<i>European Investment Bank (AUD)</i>	6.13	1-23-17	6,930,000	7,831,527	1.10
<i>KfW Bankengruppe (NZD)</i>	6.38	2-17-15	4,819,000	4,243,420	0.59
<i>Other securities</i>				5,376,521	0.75
				17,451,468	2.44

The accompanying notes are an integral part of these financial statements.

Summary portfolio of investments October 31, 2012

Wells Fargo Advantage Multi-Sector Income Fund 13

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Consumer Finance: 0.08%</b> <i>Other securities</i>				\$ 552,854	0.08%
<b>Diversified Financial Services: 0.44%</b> <i>Other securities</i>				3,173,600	0.44
<b>Industrials: 0.40%</b>					
<b>Building Products: 0.07%</b> <i>Other securities</i>				511,179	0.07
<b>Commercial Services &amp; Supplies: 0.05%</b> <i>Other securities</i>				328,509	0.05
<b>Trading Companies &amp; Distributors: 0.08%</b> <i>Other securities</i>				566,094	0.08
<b>Transportation Infrastructure: 0.20%</b> <i>Other securities</i>				1,457,209	0.20
<b>Materials: 0.17%</b>					
<b>Metals &amp; Mining: 0.09%</b> <i>Other securities</i>				654,555	0.09
<b>Paper &amp; Forest Products: 0.08%</b> <i>Other securities</i>				553,456	0.08
<b>Telecommunication Services: 0.13%</b>					
<b>Diversified Telecommunication Services: 0.13%</b> <i>Other securities</i>				956,517	0.13
<b>Utilities: 0.09%</b>					
<b>Water Utilities: 0.09%</b> <i>Other securities</i>				639,974	0.09
<b>Total Foreign Corporate Bonds and Notes (Cost \$27,583,356)</b>				32,475,867	4.54
<b>Foreign Government Bonds @: 27.24%</b>					

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<i>Australia Series 22 (AUD)</i>	6.00%	7-21-22	4,000,000	4,775,818	0.67
<i>Australia Series 124 (AUD)</i>	5.75	5-15-21	2,750,000	3,446,974	0.48
<i>Brazil (BRL)</i>	8.50	1-5-24	15,500,000	8,928,879	1.25
<i>Brazil (BRL)</i>	10.00	1-1-17	29,000,000	15,474,025	2.16
<i>Chile (CLP)</i>	5.50	8-5-20	1,700,000,000	3,831,757	0.54
<i>Hungary (HUF)</i>	6.75	11-24-17	3,520,000,000	16,281,173	2.28
<i>Indonesia (IDR)</i>	7.38	9-15-16	100,200,000,000	11,155,624	1.56
<i>Indonesia (IDR)</i>	8.25	6-15-32	29,000,000,000	3,598,983	0.50
<i>Malaysia (MYR)</i>	4.26	9-15-16	21,100,000	7,209,204	1.01
<i>Mexico (MXN)</i>	7.25	12-15-16	168,500,000	13,881,394	1.94
<i>New Zealand (NZD)</i>	6.00	12-15-17	6,705,000	6,343,583	0.89
<i>Poland (PLN)</i>	5.25	10-25-20	59,000,000	19,485,994	2.72
<i>Poland (PLN)</i>	5.75	10-25-21	19,000,000	6,486,774	0.91

The accompanying notes are an integral part of these financial statements.

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14 Wells Fargo Advantage Multi-Sector Income Fund

Summary portfolio of investments October 31, 2012

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Foreign Government Bonds @ (continued)</b>					
<i>Queensland Treasury (AUD)</i>	6.00%	3-1-22	3,600,000	\$ 4,368,469	0.61%
<i>Russia (RUB)</i>	7.85	3-10-18	520,000,000	17,751,670	2.48
<i>South Africa (ZAR)</i>	2.60	3-31-28	66,609,696	8,761,637	1.22
<i>South Africa (ZAR)</i>	6.50	2-28-41	101,000,000	9,124,194	1.28
<i>Thailand (THB)</i>	3.25	6-16-17	216,500,000	7,104,527	0.99
<i>Turkey (TRY) ¤</i>	0.00	2-20-13	20,000,000	10,955,202	1.53
<i>Turkey (TRY)</i>	9.00	3-8-17	6,000,000	3,549,791	0.50
<i>Other securities</i>				12,315,376	1.72
<b>Total Foreign Government Bonds (Cost\$ 188,245,522)</b>				194,831,048	27.24
<b>Non-Agency Mortgage Backed Securities: 7.85%</b>					
<i>Morgan Stanley</i>	0.47-6.10	12-27-33 to 12-12-49	\$ 14,594,052	9,909,503	1.38
<i>Other securities</i>				46,268,677	6.47
<b>Total Non-Agency Mortgage Backed Securities</b>					
(Cost \$53,750,217)				56,178,180	7.85
<b>Preferred Stocks: 0.10%</b>					
<b>Financials: 0.10%</b>					
<b>Diversified Financial Services: 0.10%</b>					
<i>Other securities</i>				705,780	0.10
<b>Total Preferred Stocks (Cost \$675,000)</b>				705,780	0.10
<b>Term Loans: 19.17%</b>					
<i>Barrington Broadcasting Group</i>	7.50	12-14-17	3,651,081	3,670,870	0.51
<i>CCM Merger Incorporated</i>	6.00	3-1-17	3,720,963	3,758,173	0.52
<i>Crown Castle International Corporation</i>	4.00	1-31-19	6,600,125	6,630,156	0.93
<i>Federal Mogul Corporation</i>	2.15	12-28-15	3,951,257	3,697,705	0.52
<i>Goodyear Tire &amp; Rubber Company</i>	4.75	4-30-19	6,200,000	6,235,650	0.87
<i>KAR Auction Services Incorporated</i>	5.00	5-19-17	4,945,299	4,967,553	0.69
<i>Local TV Finance LLC</i>	4.22	5-7-15	3,045,848	3,053,462	0.43
<i>LPL Holdings</i>	4.00	3-29-19	3,756,125	3,768,633	0.53
<i>Texas Competitive Electric Holdings LLC</i>	3.75	10-10-14	20,096,983	13,632,387	1.90
<i>Other securities</i>				87,694,296	12.27
<b>Total Term Loans (Cost \$139,320,773)</b>				137,108,885	19.17
<b>Yankee Corporate Bonds and Notes: 8.31%</b>					
<b>Consumer Discretionary: 0.61%</b>					
<b>Diversified Consumer Services: 0.11%</b>					
<i>Other securities</i>				763,842	0.11

The accompanying notes are an integral part of these financial statements.

Summary portfolio of investments October 31, 2012

Wells Fargo Advantage Multi-Sector Income Fund 15

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Media: 0.50%</b> <i>Other securities</i>				\$ 3,555,981	0.50%
<b>Consumer Staples: 0.48%</b>					
<b>Beverages: 0.12%</b> <i>Other securities</i>				851,971	0.12
<b>Food Products: 0.25%</b> <i>Other securities</i>				1,800,000	0.25
<b>Tobacco: 0.11%</b> <i>Other securities</i>				778,326	0.11
<b>Energy: 1.69%</b>					
<b>Energy Equipment &amp; Services: 0.12%</b> <i>Other securities</i>				862,907	0.12
<b>Oil, Gas &amp; Consumable Fuels: 1.57%</b> <i>Ship Finance International Limited</i> <i>Other securities</i>	8.50%	12-15-13	\$ 3,720,000	3,724,650 7,522,636	0.52 1.05
				11,247,286	1.57
<b>Financials: 1.57%</b>					
<b>Commercial Banks: 0.85%</b> <i>Other securities</i>				6,062,075	0.85
<b>Consumer Finance: 0.50%</b> <i>Other securities</i>				3,568,500	0.50
<b>Diversified Financial Services: 0.22%</b> <i>Other securities</i>				1,618,410	0.22
<b>Industrials: 0.28%</b>					
<b>Airlines: 0.07%</b> <i>Other securities</i>				528,750	0.07
<b>Commercial Services &amp; Supplies: 0.09%</b>					

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<i>Other securities</i>	650,149	0.09
<b>Road &amp; Rail: 0.12%</b>		
<i>Other securities</i>	835,446	0.12
<b>Information Technology: 0.50%</b>		
<b>Computers &amp; Peripherals: 0.39%</b>		
<i>Other securities</i>	2,752,000	0.39

The accompanying notes are an integral part of these financial statements.

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16 Wells Fargo Advantage Multi-Sector Income Fund

Summary portfolio of investments October 31, 2012

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Internet Software &amp; Services: 0.11%</b>					
<i>Other securities</i>				\$ 802,865	0.11%
<b>Materials: 1.09%</b>					
<b>Metals &amp; Mining: 0.90%</b>					
<i>Other securities</i>				6,470,003	0.90
<b>Paper &amp; Forest Products: 0.19%</b>					
<i>Other securities</i>				1,329,900	0.19
<b>Telecommunication Services: 1.83%</b>					
<b>Diversified Telecommunication Services: 1.40%</b>					
<i>Intelsat Luxembourg SA</i>	7.25-11.50%	2-4-17 to 4-1-21	\$ 6,400,000	6,790,502	0.95
<i>Other securities</i>				3,214,315	0.45
				10,004,817	1.40
<b>Wireless Telecommunication Services: 0.43%</b>					
<i>Other securities</i>				3,106,238	0.43
<b>Utilities: 0.26%</b>					
<b>Electric Utilities: 0.26%</b>					
<i>Other securities</i>				1,834,625	0.26
<b>Total Yankee Corporate Bonds and Notes</b>					
(Cost \$56,103,052)				59,424,091	8.31
	<b>Yield</b>		<b>Shares</b>		
<b>Short-Term Investments: 3.68%</b>					
<b>Investment Companies: 3.68%</b>					
<i>Wells Fargo Advantage Cash Investment Money Market Fund, Select Class ##(l)(u)</i>	0.17		26,329,441	26,329,441	3.68
<b>Total Short-Term Investments (Cost \$26,329,441)</b>					
				26,329,441	3.68
<b>Total investments in securities</b>					
(Cost \$910,864,444)*				954,174,244	133.38
<i>Other assets and liabilities, net</i>				(238,806,452)	(33.38)



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Total net assets \$ 715,367,792 100.00%

144A Security that may be resold to qualified institutional buyers under Rule 144A or security offered pursuant to Section 4(2) of the Securities Act of 1933, as amended.

@ Foreign bond principal is denominated in local currency.

⌘ Security issued in zero coupon form with no periodic interest payments.

(l) Investment in an affiliate

(u) Rate shown is the 7-day annualized yield at period end.

## All or a portion of this security has been segregated for when-issued securities and unfunded loans.

\* Cost for federal income tax purposes is \$915,061,017 and unrealized appreciation (depreciation) consists of:

Gross unrealized appreciation	\$ 56,619,185
Gross unrealized depreciation	(17,505,958)
Net unrealized appreciation	\$ 39,113,227

The accompanying notes are an integral part of these financial statements.

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Statement of assets and liabilities October 31, 2012

Wells Fargo Advantage Multi-Sector Income Fund 17

<b>Assets</b>	
<b>Investments</b>	
In unaffiliated securities, at value (see cost below)	\$ 927,844,803
In affiliated securities, at value (see cost below)	26,329,441
Total investments, at value (see cost below)	954,174,244
Foreign currency, at value (see cost below)	29,146
Receivable for investments sold	521,250
Principal paydown receivable	168,232
Receivable for interest	13,856,573
Unrealized gains on forward foreign currency contracts	574,304
Prepaid expenses and other assets	45,533
Total assets	969,369,282
<b>Liabilities</b>	
Dividends payable	4,205,500
Payable for investments purchased	18,682,091
Unrealized losses on forward foreign currency exchange contracts	158,492
Secured borrowing payable	230,203,210
Advisory fee payable	467,662
Due to other related parties	42,515
Accrued expenses and other liabilities	242,020
Total liabilities	254,001,490
<b>Total net assets</b>	<b>\$ 715,367,792</b>
<b>NET ASSETS CONSIST OF</b>	
Paid-in capital	\$ 774,138,238
Overdistributed net investment income	(4,658,823)
Accumulated net realized losses on investments	(97,847,137)
Net unrealized gains on investments	43,735,514
<b>Total net assets</b>	<b>\$ 715,367,792</b>
<b>NET ASSET VALUE PER SHARE</b>	
Based on \$715,367,792 divided by 42,055,000 shares issued and outstanding (100,000,000 common shares authorized)	\$17.01

Investments in unaffiliated securities, at cost	\$ 884,535,003
Investments in affiliated securities, at cost	\$ 26,329,441
Total investments, at cost	\$ 910,864,444
Foreign currency, at cost	\$ 29,121

The accompanying notes are an integral part of these financial statements.

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18 Wells Fargo Advantage Multi-Sector Income Fund

Statement of operations year ended October 31, 2012

<b>Investment income</b>	
Interest*	\$ 57,405,044
Dividends	64,797
Income from affiliated securities	29,349
Total investment income	57,499,190
<b>Expenses</b>	
Advisory fee	5,046,251
Administration fee	458,750
Custody and accounting fees	127,108
Professional fees	60,556
Shareholder report expenses	137,648
Trustees' fees and expenses	20,197
Transfer agent fees	32,406
Interest expense	766,156
Secured borrowing fees	1,808,327
Other fees and expenses	55,554
Total expenses	8,512,953
<b>Net investment income</b>	<b>48,986,237</b>