

WELLS FARGO ADVANTAGE UTILITIES & HIGH INCOME FUND

Form N-CSR

October 31, 2012

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**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- 21507

**Wells Fargo Advantage Utilities and High 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: August 31, 2012

Date of reporting period: August 31, 2012



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ITEM 1. REPORT TO SHAREHOLDERS

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# Wells Fargo Advantage Utilities and High Income Fund

## Annual Report

August 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 August 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

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2 Wells Fargo Advantage Utilities and High income Fund

Letter to shareholders (unaudited)

**Karla M. Rabusch,**

President

Wells Fargo Advantage Funds

**Analysts began openly discussing the possibility of a crisis within the European banking system and its possible effect on the U.S. economy worries that remained near the forefront as the reporting period ended.**

**Dear Valued Shareholder:**

We're pleased to offer you this annual report for the *Wells Fargo Advantage Utilities and High Income Fund* for the 12-month period that ended August 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** or the web link found on the summary portfolio schedule.

Much of the period was marked by increased confidence that the U.S. economy was staging a fragile recovery, offset by continued concerns about the possible effects that the ongoing European sovereign debt crisis would have on the global economy. Utilities stocks rose but underperformed the broader stock market, and high-yield bonds outperformed most other fixed-income sectors.

**Macroeconomic optimism faded as global growth slowed and worries rose.**

Early in the reporting period, global economic numbers supported the case for a gradual recovery. Just prior to the reporting period, real gross domestic product (GDP) growth for the U.S. was positive in the second quarter of 2011, at 2.5% on an annualized basis compared with the first quarter of 2011.

However, concerns about the eurozone sovereign debt situation soon returned to center stage as investors became increasingly concerned that Greece would default on its debt. Because many eurozone banks owned Greek debt and many U.S. banks had financial ties to eurozone banks, investors worried about the effects of such an event on the global financial system and economy. In March 2012, the Greek government came to an agreement with its creditors, allowing it to write down the principal on most of its bonds in exchange for increased financial austerity. The Greek agreement combined with unprecedented support for eurozone banks by the European Central Bank (ECB) temporarily calmed investor concerns.

Yet, ongoing weakness in the Greek economy made it difficult for the country to meet its austerity targets. Even more worrisome, in May 2012, Spain nationalized Bankia, its fourth-largest bank, after it suffered heavy losses from property loans. The move refocused investor attention to Spain's weak economy and depressed property sector, and Spanish bonds sold off. Analysts began openly discussing the possibility of a crisis within the European banking system and its possible effect on the U.S. economy worries that remained near the forefront as the reporting period ended.

**Central banks continued to provide stimulus.**

Throughout the reporting period, the Federal Open Market Committee (FOMC) kept its key interest rates effectively at zero in order to support the economy and financial system. In response to extreme market volatility and signs of a weakening economy after its January 2012 meeting, the FOMC announced its intention to keep interest rates low until at least late 2014.

At the beginning of the period, the ECB had a key rate of 1.50%, which it had raised from its previous level of 1.25% in an attempt to keep inflation in check. The ECB later lowered its key rate twice in response to weakness in the southern European economies, and a third cut in July 2012 put its key rate at a historic low of 0.75%. The ECB also announced plans to purchase sovereign bonds in an

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Letter to shareholders (unaudited) Wells Fargo Advantage Utilities and High income Fund 3  
attempt to reduce countries' costs of refinancing their debt and continued to provide virtually unlimited liquidity for European banks.

**The U.S. economy reported relatively solid news, and investors favored income-producing investments in a historically low-yielding environment.**

For most of the period, U.S. economic data remained moderately positive. Reported GDP came in at a 1.3% annualized rate in the third quarter of 2011 and then accelerated to a 4.1% annualized rate in the fourth quarter of 2011. Although GDP growth slowed to a 2.0% annualized rate in the first quarter of 2012 and a 1.7% annualized rate in the second quarter of 2012, continued economic growth in the U.S. contrasted with the more uncertain picture in Europe.

The unemployment rate was a notable exception to generally positive U.S. economic data. Although the unemployment rate declined from 9.0% in September 2011 to 8.1% in August 2012 at least part of the decline could be attributed to a decline in the labor force. (People are only counted as unemployed if they are officially looking for work.)

The relatively positive outlook for the U.S. economy generally resulted in a strong stock market. Although utilities stocks underperformed the broader market, they posted solid returns as investors continued to search for yield in a historically low-yielding environment. Fixed-income securities posted positive returns because of the favorable interest-rate environment. High-yield bonds in particular benefited from a continued low rate of defaults, aided by the fact that companies were able to reduce interest payments by refinancing higher-coupon debt at lower yields. As a result, high yield outperformed most other fixed-income sectors.

**We use time-tested investment strategies, even as many variables are at work in the market.**

The full effect of the credit crisis remains unknown. Elevated unemployment and debt defaults continue to pressure consumers and businesses alike. In our experience, strict adherence to time-tested investment strategies has its rewards. As a whole, *Wells Fargo Advantage Funds* represents investments across a range of asset classes and investment styles, giving you an opportunity to create a diversified investment portfolio. While diversification may not prevent losses in a downturn, we believe it helps to manage risk.

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

**Although utilities stocks underperformed the broader market, they posted solid returns as investors continued to search for yield in a historically low-yielding environment.**





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4 Wells Fargo Advantage Utilities and High Income Fund

Performance highlights (unaudited)

Investment objective

The Fund seeks a high level of current income and moderate capital growth, with an emphasis on providing tax-advantaged dividend income.

Adviser

Wells Fargo Funds Management, LLC

Subadvisers

Crow Point Partners, LLC

Wells Capital Management Incorporated

Portfolio managers

Niklas Nordenfelt, CFA

Timothy P. O'Brien, CFA

Phillip Susser

Average annual total return<sup>1</sup> (%) as of August 31, 2012

	1 year	5 year	Since inception 4-28-04
Based on market value	17.03	(4.73)	6.87
Based on net asset value (NAV) per share	8.20	(2.60)	7.29

*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 August 31, 2012, is 1.20% which includes 0.25% of interest expense.*

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

The Fund is leveraged through borrowings 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. A Fund which concentrates its investments in a single industry or sector may face increased risk of price fluctuation over more diversified funds due to adverse developments within that industry or sector. Non-diversified funds may face increased risk of price fluctuation over more diversified funds due to adverse developments affecting certain holdings. 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. High yield, lower-rated bonds may present more risk due to the increased possibility of default.

1. Total returns based on market value are calculated assuming a purchase of common stock at the closing market price prior to the first day's opening market price and a sale at the last day's closing market price for 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 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.

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Performance highlights (unaudited)  
**MANAGER'S DISCUSSION**

Wells Fargo Advantage Utilities and High Income Fund 5

**Strategy**

For the 12-month period that ended August 31, 2012, the equity portion of the Fund was relatively overweight in U.S. utilities, underweight in U.S. telecommunication services companies, and underweight in European equities. We reduced exposure to European equities due to ongoing concerns about macroeconomic factors affecting the continent, including uncertainty about the future of the euro and the underlying economic weakness of Europe in general and the European periphery in particular. The focus on U.S. utilities was due to favorable industry fundamentals, particularly for regulated network operators, which outperformed independent power producers for the period.

During the period, high-yield bonds benefited greatly from generally rising stock prices (as high-yield bonds often trade in sympathy with stocks), relatively low volatility, and strong investor interest due to a dearth of attractive income opportunities. In addition, companies that issue high-yield debt were generally successful at cutting costs and at refinancing older, higher-cost debt at lower yields. From a risk perspective, companies tended to be conservative in spite of inexpensive financing, eschewing speculative or highly leveraged transactions.

The Fund's investment process includes dividend capture strategy which is utilized in an attempt to achieve its primary investment objective of high current income. In employing dividend capture, a fund purchases a stock before an ex-dividend date, becomes entitled to the dividend, then typically sells the stock on or after the stock's ex-dividend date. This may result in a lack of appreciation over time which may also lead to erosion in the value of the fund. Dividend capture may increase the portfolio turnover rate and related transaction costs of the fund.

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

Great Plains Energy Incorporated	5.88
Scana Corporation	4.35
Nextera Energy Incorporated	4.35
ITC Holdings Corporation	3.99
Deutsche Post AG	3.59
Vivendi SA	3.56
Northeast Utilities	3.52
The Williams Companies Incorporated	2.98
Spectra Energy Corporation	2.61
The Southern Company	2.51

**Credit quality<sup>4</sup> as of August 31, 2012****Contributors to performance**

Within its equity holdings, the Fund's investments in payment solutions firms MasterCard Incorporated, and Visa Incorporated, as well as other substantial positions such as Deutsche Post AG, were contributors to performance. The Fund also participated in the strong appreciation of the high-yield bond market.

**Detractors from performance**

The equity portfolio's detractors from performance included some of the Fund's European holdings, such as Enel SpA and France Telecom SA. Holdings of utilities preferred shares lagged relative to the broader equity market despite their contribution to income generation. Power generation stocks with commodity exposure faced headwinds from low natural gas and wholesale electricity prices.

Specific holdings within the high-yield component of the Fund lagged the broader high-yield market as a result of a lower risk profile. Holding relatively higher-quality and shorter-maturity bonds detracted in a market that rewarded higher-risk issues.

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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.
  
4. Credit quality is subject to change and is calculated based on the total market value of bonds. 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 the 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). 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. We generally define higher quality bonds as bonds that have a rating of BBB/Baa and above and lower quality bonds as bonds with a rating below BBB/Baa.

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6 Wells Fargo Advantage Utilities and High Income Fund

Performance highlights (unaudited)

Country allocation<sup>5</sup> as of August 31, 2012

**Management outlook**

The near-term outlook for utilities and telecommunication services stocks is clouded by the possibility of much higher U.S. tax rates on dividends, the adverse impact of weak natural gas prices on commodity-sensitive power companies, and pressure on allowed rates of return for regulated electrical network operators due to persistently low interest rates. Partly offsetting these negatives is the fact that utilities continue to see robust growth in their rate base (the value of property on which a utility is allowed to earn a specified return) and their earnings continue to increase at a healthy mid-single-digit rate. Price multiples for utilities and telecommunication services shares versus the broad equity market are higher than historic averages, but we think the stocks look reasonably inexpensive compared with fixed-income alternatives.

Two scenarios could derail the high-yield market, in our opinion. One would be a meaningful increase in U.S. Treasury yields, which could create a viable alternative to corporate credit. A more likely near-term scenario would be a large and sustained drop in equities, which would likely put fear into market participants and spark outflows from the high-yield market. A sharply rising default rate – the factor that has historically tended to cause a high-yield sell-off – appears to be far off at this point, unless the economy experiences an unexpected shock. The improved fundamentals of high-yield companies, combined with paltry yield alternatives, a low-interest-rate environment, and a muddle along economic backdrop, make high yield more attractive on a risk-adjusted basis than most other opportunities. However, the run-up in high-yield bond prices may make the asset class more subject to price risk, especially if equities experience heightened volatility. While we believe that the majority of factors supporting the high yield market remain intact, we have become especially cautious in the current environment, given our aversion to uncompensated risk.

5. Country allocation is subject to change and is calculated based on the total long-term investments of the Fund.

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Summary portfolio of investments August 31, 2012

Wells Fargo Advantage Utilities and High Income Fund 7

The Summary Portfolio of Investments shows the Fund's 50 largest portfolio holdings in unaffiliated issuers and any holdings exceeding 1% of the Fund's total net assets as of the report date. The remaining securities held by the Fund 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/utilitiesandhighincome.pdf> or by calling *Wells Fargo Advantage Funds* at 1-800-222-8222. This complete schedule, filed on Form N-CSR, is also available on the SEC's website at sec.gov.

Security name	Shares	Value	Percent of net assets
<b>Common Stocks : 66.98%</b>			
<b>Consumer Discretionary : 6.28%</b>			
<b>Media : 6.28%</b>			
<i>Comcast Corporation Class A</i>	40,300	\$ 1,351,259	1.25 %
<i>Dish Network Corporation</i>	50,000	1,599,500	1.48
<i>Vivendi SA</i>	196,333	3,849,914	3.55
		6,800,673	6.28
<b>Energy : 6.68%</b>			
<b>Oil, Gas &amp; Consumable Fuels : 6.68%</b>			
<i>EQT Corporation</i>	15,000	809,400	0.74
<i>Spectra Energy Corporation</i>	100,000	2,826,000	2.61
<i>The Williams Companies Incorporated</i>	100,000	3,227,000	2.98
<i>Other securities</i>		378,339	0.35
		7,240,739	6.68
<b>Industrials : 5.75%</b>			
<b>Air Freight &amp; Logistics : 3.59%</b>			
<i>Deutsche Post AG</i>	200,000	3,885,344	3.59
<b>Building Products : 0.10%</b>			
<i>Other securities</i>		108,090	0.10
<b>Machinery : 2.06%</b>			
<i>Kaydon Corporation</i>	100,600	2,237,344	2.06
<b>Telecommunication Services : 8.90%</b>			
<b>Diversified Telecommunication Services : 6.69%</b>			
<i>BCE Incorporated</i>	16,000	711,840	0.66

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<i>France Telecom SA</i>	150,000	2,074,427	1.91
<i>Shenandoah Telecommunications Company</i>	40,000	615,200	0.57
<i>Tele2 AB Series B</i>	50,000	879,617	0.81
<i>Telecom Italia SpA</i>	2,000,000	1,583,570	1.46
<i>Windstream Corporation</i>	100,000	987,000	0.91
<i>Other securities</i>		397,482	0.37
		7,249,136	6.69
<b>Wireless Telecommunication Services : 2.21%</b>			
<i>Turkcell Iletisim Hizmetleri AS ADR</i>	80,000	1,184,000	1.09
<i>Vimpelcom Limited ADR</i>	100,000	1,063,000	0.98
<i>Other securities</i>		144,600	0.14
		2,391,600	2.21

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



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8 Wells Fargo Advantage Utilities and High Income Fund

Summary portfolio of investments August 31, 2012

Security name	Shares	Value	Percent of net assets
<b>Utilities : 39.37%</b>			
<b>Electric Utilities : 31.88%</b>			
<i>American Electric Power Company Incorporated</i>	25,000	\$ 1,074,750	0.99%
<i>CenterPoint Energy Incorporated</i>	50,000	1,019,500	0.94
<i>Duke Energy Corporation</i>	30,514	1,976,697	1.83
<i>Enel SpA</i>	350,000	1,153,403	1.06
<i>Entergy Corporation</i>	1,000	68,080	0.06
<i>Great Plains Energy Incorporated</i>	298,810	6,370,629	5.88
<i>Hawaiian Electric Industries Incorporated</i>	100,000	2,653,000	2.45
<i>Hera Group SpA</i>	1,467,400	2,163,155	2.00
<i>IDACORP Incorporated</i>	25,000	1,036,250	0.96
<i>ITC Holdings Corporation</i>	60,000	4,318,800	3.99
<i>Nextera Energy Incorporated</i>	70,000	4,711,700	4.35
<i>Northeast Utilities Incorporated</i>	101,312	3,816,423	3.52
<i>NV Energy Incorporated</i>	75,000	1,315,500	1.21
<i>The Southern Company</i>	60,000	2,719,800	2.51
<i>Other securities</i>		141,581	0.13
		34,539,268	31.88
<b>Gas Utilities : 2.55%</b>			
<i>National Fuel Gas Company</i>	50,000	2,495,000	2.30
<i>Other securities</i>		269,237	0.25
		2,764,237	2.55
<b>Multi-Utilities : 2.80%</b>			
<i>Public Service Enterprise Group Incorporated</i>	50,000	1,583,000	1.46
<i>Sempra Energy Company</i>	19,900	1,317,380	1.22
<i>Other securities</i>		129,624	0.12
		3,030,004	2.80
<b>Water Utilities : 2.14%</b>			
<i>American Water Works Company Incorporated</i>	50,000	1,843,500	1.71
<i>Other securities</i>		468,750	0.43
		2,312,250	2.14
<b>Total Common Stocks (Cost \$64,625,347)</b>		72,558,685	66.98

Corporate Bonds and Notes : 30.10%	Interest rate	Maturity date	Principal
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Consumer Discretionary : 7.31%

**Auto Components : 0.61%**

<i>Other securities</i>				655,451	0.61
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**Diversified Consumer Services : 0.82%**

<i>Service Corporation International</i>	7.50%	4-1-27	\$ 465,000	487,669	0.45
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<i>Other securities</i>				404,534	0.37
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				892,203	0.82
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The accompanying notes are an integral part of these financial statements.

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Summary portfolio of investments August 31, 2012

Wells Fargo Advantage Utilities and High Income Fund 9

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>Hotels, Restaurants &amp; Leisure : 2.29%</b>					
<i>Greentown Superholdings Incorporated</i>	13.00%	7-1-15	\$ 450,000	\$ 486,000	0.45%
<i>Other securities</i>				1,995,747	1.84
				2,481,747	2.29
<b>Household Durables : 0.03%</b>					
<i>Other securities</i>				27,375	0.03
<b>Media : 3.17%</b>					
<i>CCH II Capital Corporation</i>	13.50	11-30-16	605,000	662,475	0.61
<i>Other securities</i>				2,774,136	2.56
				3,436,611	3.17
<b>Specialty Retail : 0.39%</b>					
<i>Other securities</i>				427,909	0.39
<b>Consumer Staples : 0.19%</b>					
<b>Food Products : 0.19%</b>					
<i>Other securities</i>				203,625	0.19
<b>Energy : 4.96%</b>					
<b>Energy Equipment &amp; Services : 1.18%</b>					
<i>Other securities</i>				1,272,673	1.18
<b>Oil, Gas &amp; Consumable Fuels : 3.78%</b>					
<i>Other securities</i>				4,097,564	3.78
<b>Financials : 6.97%</b>					
<b>Capital Markets : 0.53%</b>					
<i>Other securities</i>				575,368	0.53
<b>Commercial Banks : 0.62%</b>					
<i>Other securities</i>				675,846	0.62
<b>Consumer Finance : 4.64%</b>					
<i>Ally Financial Incorporated Company</i>	8.30	2-12-15	825,000	915,750	0.84

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<i>JBS USA Finance Incorporated</i>	11.63	5-1-14	420,000	473,550	0.44
<i>Nielsen Finance LLC</i>	7.75	10-15-18	500,000	562,500	0.52
<i>Sprint Capital Corporation</i>	6.88	11-15-28	1,100,000	995,481	0.92
<i>Sprint Capital Corporation</i>	8.75	3-15-32	220,000	222,200	0.20
<i>Other securities</i>				1,852,378	1.72
				5,021,859	4.64
<b>Diversified Financial Services : 0.03%</b>					
<i>Other securities</i>				26,000	0.03
<b>Insurance : 0.42%</b>					
<i>Other securities</i>				457,188	0.42

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

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Summary portfolio of investments August 31, 2012

Security name	Interest rate	Maturity date	Principal	Value	Percent of net assets
<b>REITs : 0.73%</b>					
<i>Dupont Fabros Technology Incorporated</i>	8.50%	12-15-17	\$ 565,000	\$ 624,325	0.57%
<i>Other securities</i>				169,888	0.16
				794,213	0.73
<b>Health Care : 1.59%</b>					
<b>Health Care Equipment &amp; Supplies : 0.12%</b>					
<i>Other securities</i>				127,275	0.12
<b>Health Care Providers &amp; Services : 1.29%</b>					
<i>Other securities</i>				1,403,609	