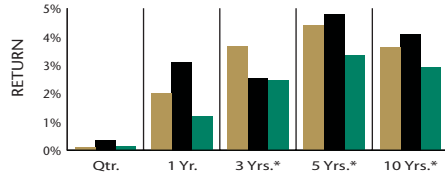


# COMMERCE FUNDS: Commerce Short-Term Government Fund – 12/31/11

**Fund Objective:** Seeks current income consistent with preservation of principal. The Fund pursues this objective primarily through investment in short-term obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities.

**TOTAL RETURNS (%) AS OF 12/31/11** Inception Date: 12/12/94



	Qtr.	1 Yr.	3 Yrs.*	5 Yrs.*	10 Yrs.*
■ Fund	0.11	2.01	3.67	4.39	3.61
■ Citigroup 1-5 Yr. Treasury/Gov't Sponsored Index <sup>3</sup>	0.34	3.11	2.53	4.78	4.09
■ Lipper Category 2nd Quartile Total Return Ranking <sup>4</sup>	0.15	1.20	2.46	3.33	2.91

Lipper Category: Short U.S. Government Funds

\* Returns for periods over one year are annualized. The returns represent past performance. Past performance does not guarantee future results. The Fund's investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted above. To obtain the most recent month-end returns, please visit our website at [www.commercefunds.com/fund\\_is\\_SharePerf.shtm](http://www.commercefunds.com/fund_is_SharePerf.shtm).

The Total Returns are average annual total returns or cumulative total returns (only if the performance period is one year or less) as of the most recent calendar quarter-end. They are net of expenses and assume reinvestment of all distributions at net asset value.

Because the Fund is not subject to a sales charge, such a charge is not applied to their Total Returns.

Investments in fixed income securities are subject to the risks associated with debt securities including credit and interest rate risk. The guarantee on U.S. government securities applies only to the underlying securities of the Fund if held to maturity and not to the value of the Fund's shares. Mortgage-backed securities are subject to prepayment risks. These risks may result in greater share price volatility.

**SHORT-TERM GOVERNMENT UPDATE**

During the past quarter investment markets calmed down and domestic economic activity appeared to be expanding at a moderate rate in the midst of some apparent slowing in global economic growth.

Recent gains in manufacturing and consumer sentiment suggest that so far the U.S. is withstanding the economic crisis in Europe. Employment conditions continue to improve with the unemployment rate dropping to the lowest level in almost three years.

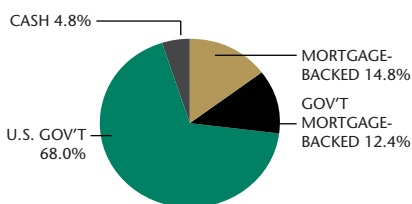
After both of the Federal Open Market Committee (FOMC) meetings in the fourth quarter, the Federal Reserve (Fed) kept the federal funds rate near zero. Inflation has moderated in recent months, and is expected to continue to ease. The Fed reiterated their plan to keep short term rates low at least through mid 2013.

The Treasury sector outperformed both agency debentures and non-agency mortgage-backed securities. Treasury yields on the short end of the yield curve were nearly unchanged for the quarter, with five year Treasury yields declining the most.

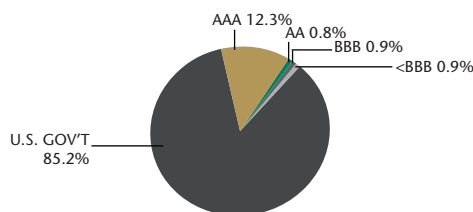
The Short-Term Government Fund's performance for the fourth quarter lagged the Citigroup 1-5 Year Treasury/Government Sponsored Index for the period. An overweight in Agency debentures and a shorter duration relative to its benchmark hindered performance.

In our opinion the pace of economic activity is expected to pick up slowly in 2012, supported by accommodative monetary policy and improvements in business and consumer sentiment. However, we believe the events of the Euro-zone will continue to dominate the markets during the first quarter of 2012.

**SECURITY TYPE<sup>5</sup> (%)**



**CREDIT RATING<sup>5</sup> (%)**



**FUND FACTS**

Ticker Symbol:	CFSTX
CUSIP:	200626109

**FINANCIAL INFORMATION**

Total Fund Assets	\$129,010,357
Net Asset Value <sup>1</sup>	\$18.08

**EXPENSE RATIO<sup>6</sup>**

Current (net)	0.68%
Before Waiver (gross)	0.90%

**MANAGER PROFILE**

Scott M. Colbert, CFA
• Joined Commerce in 1993
• 24 years of experience
• Fund manager since Fund inception

**PORTFOLIO CHARACTERISTICS**

Effective Duration <sup>2</sup>	1.93
Number of Holdings	165

**MATURITY DISTRIBUTION<sup>5</sup>**

0-2 Years	39.0%
2-3 Years	26.8%
3-5 Years	26.7%
5-7 Years	2.3%
7-10 Years	3.9%
10-20 Years	1.4%
20+ Years	0.0%

**STANDARDIZED 30-DAY YIELD<sup>7</sup>**

30-Day Subsidized Yield	0.60%
30-Day Unsubsidized Yield	0.40%



The Commerce Short-Term Government Fund (CFSTX)  
Best Fund over 3 Years Short U.S. Government Funds<sup>8</sup>



## LIPPER RANKINGS

Lipper Short U.S. Government Funds as of 12/31/11

1 Year	11 out of 86 (top 13%)
5 Years	7 out of 73 (top 10%)
10 Years	7 out of 60 (top 12%)

**Lipper Total Return Rankings** — Lipper Analytical Services, Inc. is an independent publisher of mutual fund rankings, records rankings for these and other Commerce Funds for one-year, three-year, five-year, and ten-year total returns periods. Lipper compares mutual funds within a universe of funds with similar investment objectives, including dividend reinvestment. Lipper rankings are based on **total return** at net asset value and do not reflect sales charges. Lipper rankings do not imply that the fund had a high total return.

## MORNINGSTAR RATINGS

Short Government Funds Category as of 12/31/11

Overall ★★★★★	out of 134 funds
3-Year ★★★★★	out of 134 funds
5-Year ★★★★★	out of 125 funds
10-Year ★★★	out of 106 funds

**Morningstar Risk-Adjusted Ratings:** The Overall Rating is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating Metrics. Morningstar, Inc. is an independent publisher of mutual fund research and ratings. Ratings reflect a fund's risk-adjusted 3-, 5-, and 10-year total returns, including any sales charge. A Fund is rated against all other funds in its category. 5 stars are assigned to the top 10%; 4 stars to the next 22.5%; 3 stars to the next 35%; 2 stars to the next 22.5%; and 1 star to the bottom 10%. Morningstar only rates funds with at least a 3-year history. Past performance is not a guarantee of future results.

## Notes:

1. The Net Asset Value represents the assets of the Fund (ex dividend) divided by the total number of shares.
2. Duration is the method of determining a bond's price sensitivity, given changes in interest rates.
3. The Citigroup Treasury/Government Sponsored 1-5 Year Index, formerly known as the Salomon Brothers 1-5 Year Treasury/Government Sponsored Index, is an unmanaged index comprised of Treasury securities with a minimum principal amount of \$1 billion and U.S. Government Securities with a minimum principal amount of \$100 million. The securities range in maturity from one to five years. The Index figures do not reflect any deduction for fees, taxes or expenses. It is not possible to invest directly in an unmanaged index.
4. The Lipper Category 2nd Quartile Total Return Ranking represents the lowest performing fund in the second quartile within the respective Lipper investment category.
5. Holdings and allocations shown are unaudited, and may not be representative of current or future investments. Holdings and allocations may not include the Fund's entire investment portfolio, which may change at any time. Fund holdings should not be relied on in making investment decisions and should not be construed as research or investment advice regarding particular securities.

This fund has not been rated by an independent rating agency. Commerce may receive credit quality ratings on the Fund's underlying securities from at least one of three major rating agencies - S&P, Moody's and Fitch. The underlying security may be unrated but deemed by Commerce to be of comparable quality. Commerce develops the credit quality breakdown by taking the highest rating if more than one agency rates a security. Commerce will use a single rating if that is the only one available. Securities that are not rated by the agency are reflected as such in the breakdown. Commerce converts all ratings to the equivalent S&P major rating category when illustrating the Fund's credit rating breakdown. Ratings and portfolio credit quality may change over time. Unrated securities do not necessarily indicate low quality, and for such securities the investment adviser will evaluate the credit quality. Percentages may not sum to 100% due to rounding.

6. The total annual operating expenses of the Funds, both current (net of any fee waivers or expense limitations) and before waivers (gross of any fee waivers or expense limitations), are as set forth above. In the case of the Value, Growth, Bond, Short-Term Government, National Tax-Free Intermediate, Missouri Tax-Free Intermediate and Kansas Tax-Free Intermediate Funds, the Adviser has contractually agreed to limit each Fund's total annual operating expenses (excluding interest, taxes and extraordinary expenses) until March 1, 2012. After that date, the Adviser or a Fund may terminate the contractual arrangement. A Fund's total annual operating expenses may increase without shareholder approval.
7. The 30-Day Standardized Subsidized Yield of the Fund is calculated by dividing the net investment income per share (as defined by securities industry regulations) earned by the Fund over a 30-day period (ending on the stated month-end date) by the maximum public offering price ("POP") per share of the Fund on the last day of the period. This number is then annualized. This yield does not necessarily reflect income actually earned and distributed by the Fund and, therefore, may not be correlated with the dividends or other distributions paid to shareholders. The 30-Day Standardized Unsubsidized Yield does not reflect any applicable expense reductions.
8. 2011 "Best Short U.S. Government Funds" is based on risk-adjusted performance for the three-year period and is out of 81 funds, respectively, for the period ended Dec. 31, 2010. Lipper Fund Awards are granted annually to the funds in each Lipper classification that achieve the highest score for Consistent Return, a measure of funds' historical risk-adjusted returns, measured in local currency, relative to peers. Funds registered for sale in a given country are selected, then scores for Consistent Return are computed for all Lipper global classifications with five or more distinct portfolios. The scores are subject to change every month and are calculated for the following periods: three-year, five-year, ten-year, and overall. The highest 20% of funds in each classification are named Lipper Leaders for Consistent Return. The highest Lipper Leader for Consistent Return within each eligible classification determines the fund classification winner over three, five, or ten years. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Source: Lipper, Inc. Past performance does not guarantee future results.

Goldman, Sachs & Co. is the distributor of The Commerce Funds.

**A current Commerce Funds prospectus or additional information regarding The Commerce Funds may be obtained by:**

- calling: 1-800-995-6365
- visiting our website at [www.commercefunds.com](http://www.commercefunds.com)
- or by writing to:

The Commerce Funds  
P.O. Box 219525  
Kansas City, MO 64121-9525

**Please consider a fund's objectives, risks and charges and expenses, and read the prospectus carefully before investing. The prospectus contains this and other information about the Fund.**

**Please read the prospectus carefully before investing.**

Date of first use: January 25, 2012. 66414.MF.MED.OTU