



ColumbiaManagement®

# Columbia Management Investor

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## Investment themes to help keep you on track

Despite the effects of recent market volatility, investors' financial goals haven't necessarily changed. Many investors are still pursuing the same familiar objectives, from conservative capital preservation to aggressive capital accumulation. The difference is, when markets are struggling, the pool of attractive investment opportunities shrinks. This can make achieving those objectives much more challenging. To help investors keep their portfolios on track, we would like to highlight some investment themes for today's market environment. Following each section, we have provided links to specific Columbia funds to assist shareholders in taking advantage of the investment themes.

### > **Growth — scarce growth equity mutual funds**

The growth in today's slow-growth recovery is conspicuously hard to find. But there are companies that stand out. They are in industries with strong prospects, like health care and technology. We believe they have invested in themselves intelligently and are capable of driving innovation and internal growth. Consequently, they are positioned to excel well beyond their peers. Scarce growth equity mutual funds apply considerable resources to discover and invest in these rare companies.

#### *Columbia Select Large Cap Growth Fund*

The fund is subject to stock market fluctuations. By maintaining a relatively concentrated portfolio, the fund may be subject to greater risk than a fund that is more fully diversified. The fund may invest in foreign securities. International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards, and other monetary and political risks.



(continued)

## Investment themes to keep you on track *(continued)*

### > **Total return — yield-oriented equity mutual funds**

Since the 2009 equity market rally, the market has undergone an unsettling series of ups and downs. As a result, stock price appreciation has been modest at best. One stock category that can help to offset this trend is dividend payers. Dividend stocks pay a dividend yield in addition to offering potential share price growth. This means that regardless of price movement, the investor receives some income/return in the form of dividends. Furthermore, dividend stocks on the whole have a historical track record of lower volatility. Finally, a big percentage of dividend payers are large, well-established companies that are inherently more resistant to major declines. Yield-oriented mutual funds typically invest in higher quality dividend-paying companies that are selling at attractive prices and are expected to increase their dividend yield.

#### Columbia Dividend Income Fund

Risks include stock market fluctuations due to business and economic developments. Value stocks may also be subject to specific business risks that have caused the stocks to be out of favor. Lower rated and medium-quality debt securities are more speculative and incur more risk.

Dividend payments are not guaranteed. The amount of a dividend payment, if any, can vary over time and issuers may reduce dividends paid on securities in the event of a recession or adverse event affecting a specific industry or issuer.

### > **Tax efficiency — municipal bond mutual funds**

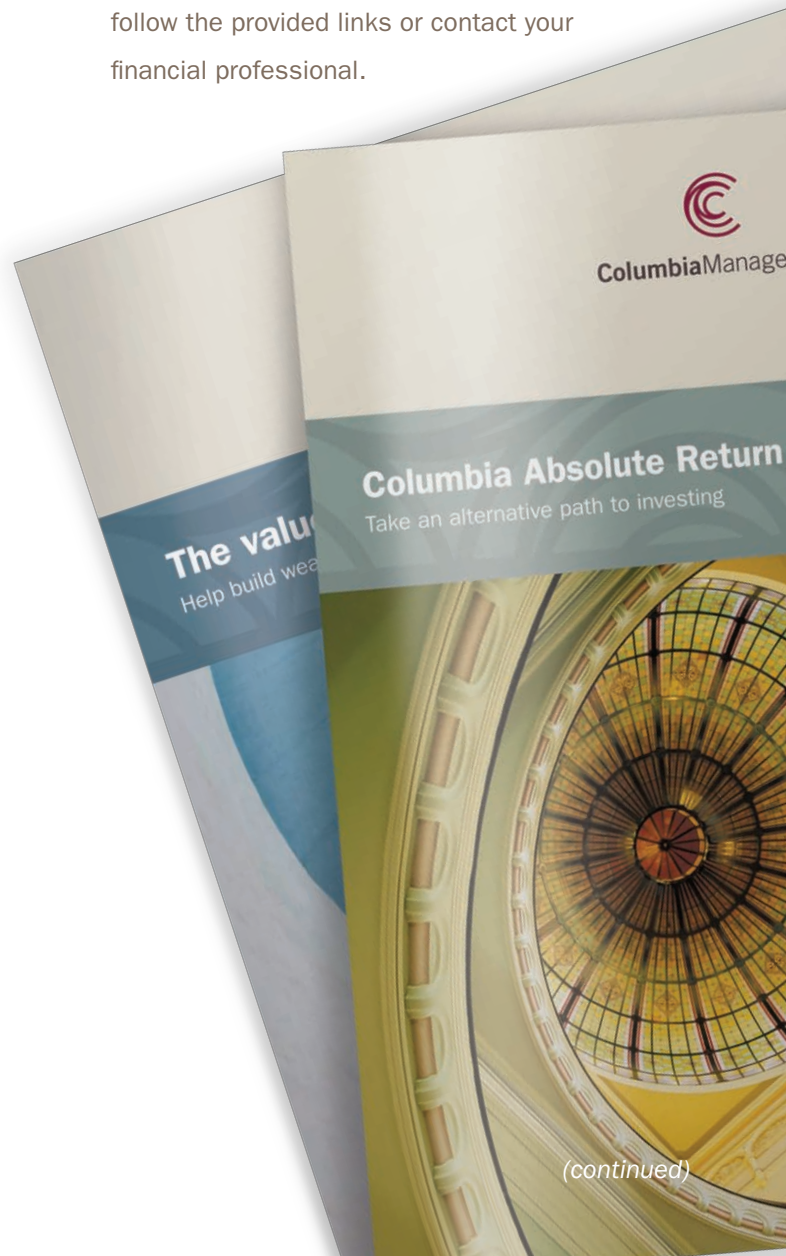
Municipal bonds have always been important to investors because of the tax-exempt status of interest paid. Today, municipal bonds are especially appealing and here's why. First, in the current environment, where positive returns can be elusive, the relative value of this municipal bond advantage is increased. Second, municipal bond yields are attractive when compared with similar alternatives. Third, the risk of default has substantially decreased due to measures implemented in response to the 2008 crisis. Municipal bond mutual funds seek to capitalize on the tax-exempt status of municipal bond interest while paying close attention to the creditworthiness of the issuing municipality.

#### Columbia Tax-Exempt Fund

There are risks associated with an investment in a bond fund, including credit risk, interest rate risk, and prepayment and extension risk. See the fund's prospectus for information on these and other risks associated with the fund. In general, bond prices rise when interest rates fall and vice versa. This effect is more pronounced for longer term securities.

A portion of income from the fund may be subject to state and local taxes and a portion of income may be subject to the federal and/or state alternative minimum tax for certain investors. Federal income tax rules will apply to any capital gains distribution.

While today's economic environment may not provide the same returns that investors have come to expect and plan their futures around, we believe that progress toward financial goals can still be made. For this, we at Columbia Management view working with a financial professional and using a mix of the right strategies for your portfolio — like those featured in this article — as essential. For more information on Columbia funds, please follow the provided links or contact your financial professional.



*(continued)*

## Investment themes to keep you on track *(continued)*

### > **Capital preservation — short-duration credit mutual funds**

For many investors, having at least a portion of their investment in relatively low-risk assets is an important aspect of their portfolio. Going to cash is a possibility. So are U.S. Treasuries or money market funds. These are widely seen as the safest options for preserving your portfolio. The downside of each is that even modest inflation and other cost-of-living increases can exceed the investment's return, resulting in a loss of real value. Further, while longer term bonds with higher yields may be a seemingly more attractive alternative, the downside risk of rising interest rates is worrisome. Currently, interest rates are so low that such increases seem inevitable. Short-duration mutual funds invest in shorter term bonds that boast a higher yield to other low-risk alternatives, helping investors keep pace with inflation and the rising cost of living. At the same time, their shorter maturity dates make them less susceptible to interest-rate risk.

#### *Columbia Limited Duration Credit Fund*

There are risks associated with an investment in a bond fund, including credit risk, interest rate risk, and prepayment and extension risk. See the fund's prospectus for information on these and other risks associated with the fund. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

### > **Managing portfolio risk — absolute return mutual funds**

In light of recent economic events, it has become apparent that for many investors, the traditional diversification of a mix of stocks and bonds might no longer be enough. Absolute return mutual funds have the freedom to diversify beyond this traditional mix, exploring opportunities in asset classes with a lesser economic connection, or "low correlation," to the market. Absolute return funds make this diversification a priority, with the aim of mitigating risk.

#### *Columbia Absolute Return Multi-Strategy Fund*

#### *Columbia Absolute Return Enhanced Multi-Strategy Fund*

**Absolute return funds are not designed to outperform stocks and bonds in strong (upward) markets. There is no guarantee that any investment strategy will be successful or that the fund's objectives will be achieved.**

Columbia Absolute Return Multi-Strategy funds are designed for investors with above-average risk tolerance. Absolute return funds are not designed to outperform stocks and bonds in strong markets. They employ certain techniques designed to help implement asset and investment strategy allocations. The techniques used are also intended to reduce risk and volatility in the portfolio and provide protection against a decline in the fund's assets. However, there is no guarantee that any investment strategy will be successful or that the fund's objectives will be achieved. The market value of securities and currencies may fall, fail to rise or fluctuate, sometimes rapidly or unpredictably. Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. Due to their active management, the funds could underperform other mutual funds with similar investment objectives. They may make short sales, which involves selling a security the fund does not own in anticipation that the security's price will decline. Short positions introduce more risk than long positions. Leveraging exposes the fund to greater risks due to unanticipated market movements, which may magnify losses and increase volatility of returns. The use of derivatives introduces risks possibly greater than the risks associated with investing directly in the investments underlying the derivatives. A relatively small price movement in an underlying security may result in a substantial gain or loss. Investments in foreign securities involve certain risks not associated with investments in U.S. companies, including political, regulatory, economic, social, and other conditions or events occurring in the particular country, as well as fluctuations in its currency and the risks associated with less developed custody and settlement practices. Risks are particularly significant in emerging markets. There are risks associated with fixed-income investments, including counterparty credit risk, interest rate risk, and prepayment and extension risk. Counterparty credit risk is the risk that a counterparty becomes bankrupt or otherwise fails to perform its obligations, and the fund may obtain no or only limited recovery of its investments, and any recovery may be significantly delayed. In general, bond prices rise when interest rates fall and vice versa. This effect is more pronounced for longer term securities. See the prospectus for more information on these and other risks associated with Columbia Absolute Return Multi-Strategy Funds.

# Columbia Management website enhancements on the horizon

Beginning in November 2011, you'll notice enhancements to the Columbia Management website when accessing your mutual fund accounts, some of which will require action from you. These changes will help ensure your information remains safe and secure and will improve your experience on [columbiamanagement.com](http://columbiamanagement.com).

## What you can expect

## What you should do

### > Improved website navigation

Your secure mutual fund account detail will be integrated into the Columbia Management website through the Account Access section. This means that after you log into your mutual fund account, you will also be able to browse Columbia Management products and information without leaving the site or signing out.

### > Reregister for your Columbia Management account

Using one of your fund and account numbers, you will be required to choose a new user ID and password to help ensure your information remains safe and secure. Go to the Columbia Management website for more details.

### > Account security enhancements

New security procedures will be incorporated into the account login process to ensure your information remains safe and secure.

### > Update aggregator websites or software programs

After you reregister for the Columbia Management website, remember to update any financial aggregator websites or tax programs that use data from your Columbia Management accounts (such as [mint.com](http://mint.com) or [TurboTax](http://TurboTax)) with your new login credentials.

### > Online password reset

In the event you forget your password after reregistration, you will be able to reset your password online using a validation question and answer that you provide.

### > Update your costing method, if desired

For non-retirement mutual fund shares purchased and subsequently redeemed on or after January 1, 2012, Columbia Management will be required to report the cost-basis to both you and the IRS. Columbia Management will use average cost as the default method, but beginning in November, you will have the option to select a different cost method on our website, [columbiamanagement.com](http://columbiamanagement.com).

### > Expanded electronic delivery

Our eDelivery service will be expanded to include quarterly statements, in addition to annual and semiannual reports, prospectuses and supplements.

### > Enroll in eDelivery

As part of the new registration process, you can choose to sign up for eDelivery. Whether you are enrolling for the first time or already receiving electronic documents, you will need to agree to the terms for eDelivery in order to receive electronic documents going forward. If you choose to enroll in eDelivery, you will receive notifications with a link to the electronic copy of your quarterly statements, annual and semiannual reports, prospectuses and supplements.

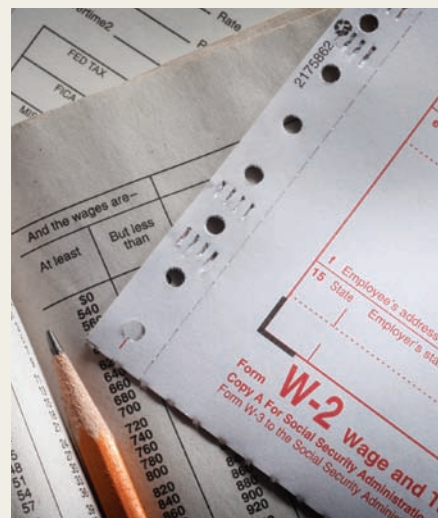
## Cost basis update

As a follow-up to our Q3 cost basis article, we are providing additional information on the upcoming changes triggered by federal legislation, which requires Columbia Management to track the cost basis and holding period of covered mutual fund shares (those acquired beginning January 1, 2012). The law requires us to report this information to both shareholders and the Internal Revenue Service (IRS) for the tax year in which these covered shares are sold.

- > Cost basis will be reported on Form 1099-B (Proceeds from Broker and Barter Exchange Transactions).
- > Several accounting methods can be used to calculate cost basis. (Please refer to [Frequently Asked Questions](#) for a list of available cost basis methods.)
- > For shareholders who do not elect a different cost basis accounting method, Columbia Management will default to average cost.
- > Shareholders who do not wish to default to average cost should visit [columbiamanagement.com](http://columbiamanagement.com) in November to elect another method.

A letter on the new cost basis requirements was included with third quarter statements for those shareholders with Form 1099-B reportable accounts. Please take a moment to read the letter, which may help to answer outstanding questions. For additional information on the new cost basis reporting requirements, you can also view our [Frequently Asked Questions and cost basis glossary](#). If you have questions about which cost basis accounting method is appropriate for your situation, please consult your tax advisor. For other related questions, please contact a client service representative at 800.345.6611.

Columbia Management will use average cost as their default method. Average cost is a method for valuing the cost of covered shares in an account by averaging the effect of all covered transactions in the account. The gain/loss is calculated by taking the cumulative dollar cost of the covered shares owned and dividing it by the number of covered shares in the account.



## Strategies for weathering the storm

### Dollar cost averaging

Although often abandoned by investors, dollar cost averaging can benefit investors who purchase shares consistently during rising and falling markets. The net result is that over time, an investor's average cost per share should be less than the average share price for a fixed-dollar investment. For more information, please click [here](#) to read [Dollar Cost Averaging in a Bear Market](#).

### Staying invested

Although the stock market has had its up and downs over the decades, history has consistently shown that the Dow Jones Industrial Average, after an initial decline, produced double-digit returns in the 12-month period following a crisis event. For more information, please click [here](#) to read [Recovery After a Crisis](#).

### Avoidance of market timing

Some of the worst market losses were followed by strong recoveries. Using the S&P 500 Index as a point of reference, during the period from 1980–2010, an investor with a buy and hold strategy would have received an average annual total return of 7.71%. However, if the investor had missed the 25 best days, through poor market timing, his or her average annual total return would have been reduced to 2.68%. For more information, please click [here](#) to read [Time, Not Timing](#).

Dollar cost averaging does not assure a profit or protect against loss in a declining market. It involves continuous investment in securities regardless of fluctuating prices. Investors should consider their ability to continue investing through periods of low price levels.

## Infrastructure: Investing in essential assets

Over the past several years, infrastructure stocks on the whole have exhibited characteristics that may make them an effective addition to a diversified portfolio.

We take it for granted. The drive to work, flipping on a light, a phone call from a street corner, dropping the kids at school, preparing a meal, even taking in a baseball game. But behind these ordinary activities is a complex system of infrastructure, the majority of which goes unseen or unnoticed in our daily lives.

### The backbone of economic activity

The upkeep and development of this vast infrastructure depends on substantial, ongoing investment at the local, national and global level. Each year, billions of dollars are spent to maintain and upgrade existing infrastructure and to initiate new projects that will affect how we live and do business for decades to come.

Infrastructure impacts nearly every aspect of our lives:

- > Transportation assets: roads, bridges, tunnels, airports, railroads
- > Utility assets: power generation facilities, electric transmission, broadcast/wireless towers, gas/water distribution, cable/satellite networks
- > Social assets: hospitals, schools, courthouses, stadiums

It's important to know that investments in infrastructure-related securities involve greater risk and volatility than more diversified investments, including greater exposure to adverse economic, regulatory, political, legal and other changes affecting the issuers of such securities.

### Infrastructure offers a near-term opportunity...

Aging and insufficient infrastructure in the United States and other developed nations is in urgent need of renewed investment. Dramatic population growth and modernization in the developing world demand robust infrastructure investment. The global infrastructure opportunity has already delivered significant gains, but it remains in its early stages. China, Brazil and India still require years of investment, and the United States has barely scratched the surface of its initial commitment to resurfacing millions of miles of roads, repairing thousands of bridges and upgrading an insufficient and failing electric grid.

### ...and a long-term investment

Governments around the world have signaled their intention to invest heavily in infrastructure in the coming decades. In fact, a significant portion of the proposed U.S. government stimulus is focused on infrastructure. In addition, the American Society of Civil Engineers 2009 Report Card for America's Infrastructure calls for \$2.2 trillion over the next five years to maintain our nation's aging infrastructure.



## Infrastructure: Investing in essential assets *(continued)*

### Adding diversification

Investing a portion of your portfolio's equity allocation in infrastructure has the potential to help enhance diversification, improve overall portfolio stability and position you for the next recovery cycle.

- > **Low correlation.** Over the long-term, returns from infrastructure-related stocks have not been closely correlated to bonds and the broader stock market.
- > **Geographic diversification.** Many large, infrastructure-focused industrial companies operate as multinationals.
- > **Relative consistency.** Because infrastructure industries tend to provide essential services and critical physical assets, they may be less sensitive to cyclical economic downturns.

Diversification does not assure a profit or protect against loss.

### A potential solution from Columbia Management

#### Columbia Recovery and Infrastructure Fund

- > The fund seeks to invest in infrastructure-related companies that appear to be undervalued or that may be temporarily out of favor but are believed to be entering a period of recovery.
- > The investment process focuses on firms with a direct investment in infrastructure companies and in companies that operate or use infrastructure assets.
- > The fund may invest in companies of any size and may invest up to 20% of its assets in securities that are not infrastructure-related.

Columbia Recovery and Infrastructure Fund concentrates its investments in infrastructure-related securities, which involve greater risk and volatility than more diversified investments, including greater exposure to adverse economic, regulatory, political, legal and other changes affecting the issuers of such securities. The fund may also invest in foreign securities, small and mid-sized companies, real estate investment trusts or exchange-traded funds (ETFs), which involve additional risks. International investing involves increased risk and volatility due to potential political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Investments in small- and mid-capitalization companies involve greater risks and volatility than investments in larger, more established companies. Investments in real estate involve market risk, issuer risk, diversification risk and sector/concentration risk. The price movement of an ETF may not track the underlying index and may result in a loss. The fund is non-diversified, and may be more exposed to the risks of loss and volatility than a fund that invests more broadly. See the fund's prospectus for information on these and other risks associated with the fund.

### Additional resources

To find out more, please:

- > Contact your financial professional
- > Read our white paper titled [\*An Investment in Infrastructure\*](#)
- > Visit our video library and watch Featured Funds: Warren Spitz, a portfolio manager of Columbia Recovery and Infrastructure Fund, discusses the outlook for the global infrastructure market.



## Money markets — Where are we now?

We would like to provide investors with our interpretation of what has transpired in the money market universe and offer our thoughts and expectations for the future.

### SEC amendments to improve and protect money market funds

Many money market investors remember the fall of 2008 as a period of uncertainty and confusion. We saw the Lehman Brothers meltdown in September, which precipitated the Reserve Primary Fund “breaking the buck” shortly thereafter. Since then, the money market industry, with the guidance of the SEC, has implemented several important measures to reduce the risk of money market investments. Here are some highlights of those implemented in 2010:

- > The average maximum maturity for money market funds was reduced from 90 days to 60 days, making the funds less sensitive to interest rate changes and providing them with more liquidity.
- > A minimum of 10% of taxable assets now must be in cash, U.S. Treasury securities or securities that mature within one day.
- > To minimize a fund’s liquidity risk, the SEC now restricts money market funds from investing more than 5% of its assets in liquid securities. The limit prior to the change had been 10%.
- > At least 97% of assets must be invested in securities that receive the highest short-term rating or securities of comparable quality.
- > Each fund must perform periodic stress tests based upon certain hypothetical events, and these stress tests must be reviewed by each fund’s board of directors.

**These SEC amendments make money market funds more resistant to certain short-term market risks and provide greater protection by improving the quality of portfolio securities.**

### Columbia Management Money Market Funds

At Columbia Management, we have imposed additional restrictions on our money market funds as follows:

- > We currently do not purchase any second-tier securities<sup>1</sup> for our money market funds.
- > We currently do not purchase any illiquid securities.<sup>2</sup>
- > Our internal stress tests are more stringent than the SEC requirements, assessing the effects of redemptions, credit/spread widening, interest rate changes and defaults.

We believe the result of the recent changes is that money market funds have become safer investment vehicles. Investors should be wary of any fund that offers a yield that is well above its peers. In this low-yield, risk-averse environment, any anomaly should trigger a warning that a fund is potentially holding securities with a higher risk profile. At Columbia Management, we recognize that a money market fund is not a place for investors to maximize returns but rather an investment vehicle that seeks safety of principal and liquidity for current and future cash needs, with yield as a secondary concern.

<sup>1</sup> Second-tier securities are securities rated in the second highest short-term rating category by rating agencies.

<sup>2</sup> Illiquid securities are securities that are not readily converted into cash such as a stock, bond or commodity that is not traded actively and would be difficult to sell at once without taking a large loss.



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

## Money markets — Where are we now? *(continued)*

### Fund positioning

Columbia money market funds have no direct and very minimal indirect exposure to Portugal, Italy, Ireland, Greece or Spain.

We are very comfortable with our fund positioning in these volatile times. Since we do not expect a meaningful recovery any time soon in the eurozone, or the United States for that matter, the funds will continue to be managed for the foreseeable future in the same conservative stance as they are today.

If you would like more information about investment solutions at Columbia Management, please contact your financial professional or visit [columbiamanagement.com](http://columbiamanagement.com).



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**Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. For a free prospectus, which contains this and other important information about the funds, visit [columbiamanagement.com](http://columbiamanagement.com). The prospectus should be read carefully before investing.**

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, will not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not account for individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. Past performance does not guarantee future results and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

Investment products are not federally or FDIC-insured, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

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