

### Products Covered:

- Columbia Bond Fund

*We believe that the Agency MBS sector as a whole is rich. We see better opportunities in the other two securitized sectors, most notably CMBS. We also remain positive in our outlook for certain areas within the corporate bond market.*

### Investment Risks

Risks include the credit quality of individual issuers, prepayments, market or economic developments and yield and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop and vice versa.

### Market environment continued to improve

Just one year ago, investors were digesting the Lehman Brothers collapse — one event among many notable structural changes in the financial marketplace and in a climate in which the credit markets had effectively closed for business. Fast forward to September 2009. Yield spreads have tightened considerably because of ongoing government intervention to remove illiquid assets from bank balance sheets. New issuance has turned a corner and seen a healthy pickup in 2009. Risk aversion has abated and an appetite for risk has taken hold over the course of these past several months. Spread compression this quarter was greater for securities rated at a lower tier in credit quality. By many accounts, it seems that the economy's slide has been checked, with muted or rising indicators signaling that we may be in the initial stages of a recovery (albeit a slow and sluggish one). Thus far, the Federal Reserve Board has indicated that it will not move the target rate from its zero to 0.25% range at any point in the near term.

Treasury yields decreased across all maturities in the third quarter, despite the continued massive supply of Treasury debt to fund the Treasury department's unprecedented spending in response to the financial crisis.

In this environment, the strategy outperformed its benchmark, the Barclays Capital U.S. Aggregate Bond Index.

### Emphasis on spread sectors aided returns, curve exposure and mortgages detracted

Performance was assisted by the strategy's bias toward spread sectors. An overweight in the commercial mortgage-backed securities (CMBS) sector contributed positively to performance. Ongoing and unprecedented government intervention has aided the securitized market. CMBS, in particular, have rebounded strongly with the expansion of the Term Asset Backed Securities Loan Facility program (TALF) and the Public-Private Investment Program (PPIP) initiative.

In addition, an allocation to the credit sector had a positive impact on performance in the third quarter. Security selection within credit was also helpful. We continue to maintain a barbelled structure of higher-beta financial bonds, mostly banks, brokers and insurers, and lower-beta utility bonds, mostly natural gas pipelines.

The strategy's duration was longer than the benchmark, which was also advantageous during the period.

An underweight in mortgage-backed securities (MBS) diminished returns after this sector posted positive excess return. Security selection in the CMBS and asset-backed securities (ABS) sectors detracted from performance. The portfolio holds seasoned CMBS securities of the highest capital structure, which were issued when underwriting standards were stricter. Newer production loans underwritten in 2006 and 2007 rallied harder. Lower-quality, BBB-rated CMBS and ABS outperformed higher-quality AAA-rated securities. The strategy's long duration positioning was evenly spread along the curve, with the exception of the very long end. As the long

### Performance data quoted represents past performance, and current performance may be lower or higher. Past performance is no guarantee of future results.

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end outperformed the rest of the curve, curve positioning detracted from relative performance.

### Market outlook

In light of the fact that the Federal Reserve Board has already purchased \$830 billion of Agency MBS, on its way to \$1.25 trillion, we believe that the sector as a whole is rich. We see better risk/reward opportunities in the other two securitized sectors, most notably CMBS. We also remain positive in our outlook for certain areas within the corporate bond market.

**Please read and consider the investment objectives, risks, charges and expenses for any fund carefully before investing. For a prospectus, which contains this and other important information about the fund, contact your Columbia Management representative or financial advisor or go to [www.columbiamanagement.com](http://www.columbiamanagement.com).**

The **Barclays Capital Aggregate Bond Index** is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least \$250 million par amount outstanding and with at least one year to final maturity. It is unmanaged and unavailable for investment.

Determinations of contributors and detractors are based on performance relative to the fund's benchmark.

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