

**Products Covered:**

- Columbia High Income Fund

*We believe that the current narrow quality spread premium is an anomaly, and the result of excess dollars in the marketplace seeking higher yields without paying sufficient attention to risk in a tenuous economic environment.*

**Investment Risks**

High-yield debt securities are often referred to as “junk bonds.” High-yield debt securities offer the potential for higher income than other kinds of debt securities with similar maturities, but they also have higher risk. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer’s ability to make principal and interest payments. When interest rates go up, bond prices generally drop and vice versa.

**High-yield bonds continued their remarkable run of strong performance**

Investor demand for high-yield was robust for the entire year. According to the AMG Data Services, high-yield mutual funds reported net inflows of \$31.1 billion in 2009, far surpassing last year’s \$6.5 billion inflow and near the previous high of \$32.9 billion, which was set in 2003. New issuance in the primary market was active during the fourth quarter, with 99 new issues priced for \$38.1 billion. For the calendar year, 314 new issues priced for \$132.8 billion, nearly three times last year’s volume level. Net new issuance in 2009 was higher than the previous annual volume record set in 2004.

In this environment, high yield significantly outperformed the 10-year Treasury, which posted a negative 3.52% return for the fourth quarter. The yield difference between Treasuries and high yield tightened by 85 basis points, ending the year at approximately 635 basis points. The yield-to-worst declined to 8.71% and the average price increased to nearly \$93.

The Credit Suisse High Yield Index returned 6.23%, essentially in line with the S&P 500 Index and the NASDAQ Composite Index, as all of its industries posted positive returns. The Columbia High Income Fund underperformed its benchmark.

**Key industries and security selection drove positive performance<sup>1</sup>**

Chemicals was one of the market’s top-performing industries for the quarter, and the fund’s overweight allocation further boosted the fund’s relative performance in the industry. In addition, the fund’s gaming/leisure overweight, with emphasis on the lodging subsector, also had positive impact on relative performance.

**Conservative positioning hampered relative return**

The fund’s relatively conservative risk profile hampered returns relative to the index and peers, as the lowest-quality securities continued to outperform higher-quality securities for the quarter. While all the fund’s financial and transportation holdings were positive performers for the quarter, the higher-quality bias of these holdings detracted from the fund’s relative performance, as the weaker-quality credits, which the fund did not own, outperformed. An overweight position in the utilities sector also detracted from performance.

**Market Outlook**

Although the current consensus suggests that recession is over and a strong economic recovery is underway, we do not share these views. In fact, we continue to believe that the economy will continue to remain weak much longer than the market reflects. At the end of the year, the difference in yield between split-B and BB-rated securities was just 310 basis points compared to 1,400 basis points a year earlier. This quality spread is now at the bare minimum of what it would be in the best of economic environments. We believe that this narrow quality spread premium is an anomaly, and the result of excess dollars in the marketplace seeking higher yields without paying

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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NOT FDIC INSURED	May Lose Value
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sufficient attention to risk in a tenuous economic environment. As a result, we plan to remain true to our disciplined investment process, which requires us to remain underweight in the riskier segment of the high-yield market. In fact, we have been slowly selling credit risk as prices spiked. Over time, this investment process has helped cushion the fund during periods of volatility and helped us avoid market swings.

**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 **Credit Suisse First Boston (CSFB) High Yield Index** is a broad-based index that tracks the performance of high-yield bonds.

The **Standard & Poor's (S&P) 500 Index** is an unmanaged index that tracks the performance of 500 widely held, large-capitalization U.S. stocks.

The **NASDAQ Composite Index** is a market capitalization price-only index that tracks the performance of domestic common stocks traded on the regular NASDAQ market as well as National Market System-traded foreign common stocks and America Depository Receipts.

<sup>1</sup> Determinations of contributors and detractors are based on performance relative to the fund's benchmark.

Unlike mutual funds, indices are not investments, do not incur fees or expenses and are not professionally managed. It is not possible to invest directly in an index.

Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that the forecasts will come to pass. The views and opinions expressed are those of the portfolio managers and analysts of the affiliated advisors of Columbia Management Group, are subject to change without notice at any time, may not come to pass and may differ from views expressed by other Columbia Management associates or other divisions of Bank of America. These materials are provided for informational purposes only and should not be used or construed as a recommendation of any security or sector.

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