

Products Covered:

- Columbia Small Cap Value Fund I

Performance overview

Despite an in-line fourth quarter for the strategy, the Columbia Small Cap Value Fund I significantly outperformed the primary benchmark Russell 2000 Value Index for the year.

2010 Preview — Gain share, pay me, or get out of the way

In 2010, it won't be the economy that drives small-cap stocks. Instead, we believe opportunities will emerge in companies that can gain market share, step up dividend payments or yield to stronger industry players through mergers and acquisitions (M&A). Recent, positive results in third-quarter gross domestic product (GDP) and third-quarter corporate earnings were likely byproducts of economic stimulus, inventory restocking from severely depleted levels and aggressive cost cutting. In our view, they do not presage sustainable economic growth in the future. The output gap has remained significant, meaning there is still a large amount of underutilized capacity in the economy. The government has pumped extreme levels of liquidity into the economy, with a willingness to backstop everything (e.g., the \$8,000 first-time homeowner tax credit). However, we do not expect this to translate directly to commercial bank lending. In general, we believe economic results will be volatile, lacking a strong tailwind in 2010. How are we positioned to drive results for clients in 2010, given the lethargic economy we foresee? We will continue to look for high-quality small-cap companies with strong balance sheets and good cash flows that are selling at a discount to their peers. To prepare for 2010, we coupled that strategy with the tag line to our commentary (i.e., looking for companies with an opportunity to gain share, increase distributions to shareholders and participate in an M&A revival). We believe that each may generate excess returns in 2010.

Gain share...

Currently, economic output has far below even normal operating levels. Even in this tough environment, there will be opportunities for small companies to benefit from industry consolidation by growing market share off a small base. In our view, this part of the economic cycle will prompt a reallocation of market share from high-cost, less-productive players to more efficient operators, as well as a redistribution of share from ancillary providers to companies focused on core competencies. In addition, we believe lenders will continue to be highly selective in extending credit, which may increase bankruptcies. The lack of credit will also affect small companies with poor liquidity, as working capital may not be available or cost effective to attain. This could reduce industry competition. Our focus is on companies with strong balance sheets and healthy cash flows, which have many more levers to pull than their weaker counterparts. These firms can invest to gain market share in this economically slow period and emerge as more formidable competitors when the recovery takes hold. They are also uniquely positioned to attract business from customers seeking to remove counterparty risk and partner with low-cost producers that can help meet their production schedules.

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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Investment Risks

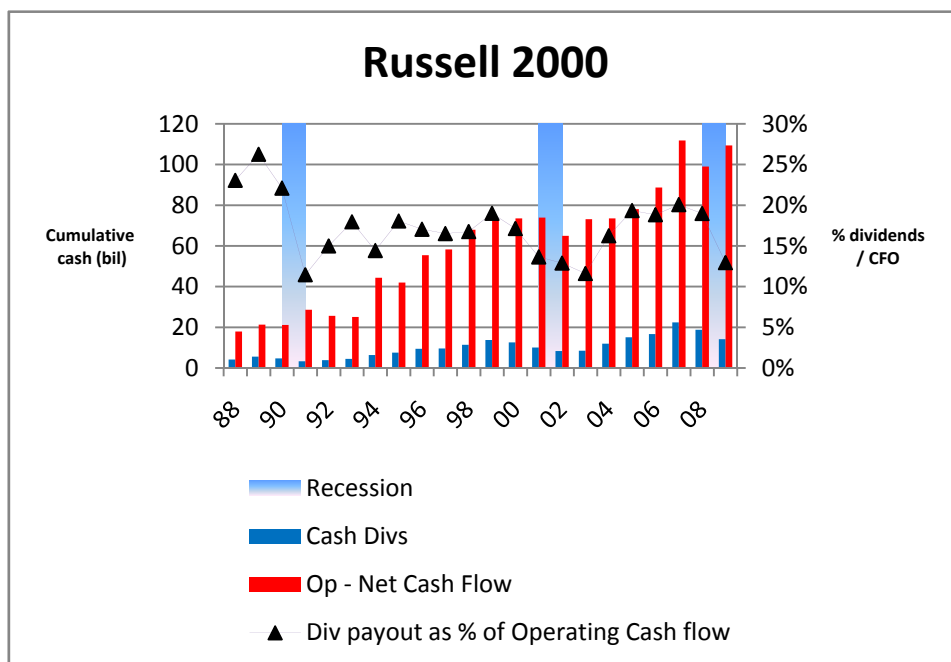
Risks include general stock market fluctuations due to business and economic developments. Investments in small-cap companies may be subject to greater volatility and price fluctuations because they may be thinly traded and less liquid. Value stocks may also be subject to specific business risks that have caused the stocks to be out of favor.

NOT FDIC INSURED	May Lose Value
NOT BANK ISSUED	No Bank Guarantee

Pay me...

During the “Great Recession,” cash flow at small-cap companies held up well, as managements acted quickly to cut costs and improve working-capital efficiency. For some companies, balance sheets are continuing to strengthen, as excess capacity requires lower capital expenditures. Making wise capital expenditures today can generate high future returns, especially given the availability of used equipment and other lower-input costs (such as labor and materials). Yet, with excess capacity and tight financing availability, companies are likely to take on fewer large-scale capital investments, which should lead to higher free cash flow (FCF) from operations. One important use of FCF is dividend payments, a key component of total return. The Columbia Management Dividend Income Team highlights the high correlation of FCF and dividend growth in the chart on the next page. Historically, dividend payouts from small-cap companies have fallen during recessions and risen during post-recession periods. If dividend payout ratios at small-cap companies rebound to a historically normal level, dividends paid could increase 33%. We believe companies with strong balance sheets and investment discipline will increase dividends in the near future as operations improve. We also believe strong small-cap companies will resume share repurchases, which would increase earnings per share and return excess capital to shareholders.

Cash flows and dividend payments at small-cap companies (Russell 2000 Index)



Source: Compustat, internal calculations, second quarter 2009

Or get out of the way

As slower growth pervades, we believe M&A activity will increase. Large-cap companies are now operating with historically strong balance sheets and have better access to credit markets. Slow growth, low borrowing costs and infinitesimal returns on cash balances are strong incentives for larger companies to drive growth through M&A. A weak dollar creates further incentive for overseas companies to buy U.S. firms. We believe a rise in business confidence will create and incentivize companies

to make acquisitions before fundamentals or valuations rebound. In past M&A cycles, a high number of the stocks we held were acquired. As M&A has resumed, we again see acquisition activity among our holdings. Recently, health care and industrial companies in our portfolios have been acquired by both strategic and financial buyers.

Our focus on companies with strong balance sheets and good cash flows that trade at a discount works well for investors in most periods of a market cycle. At this time, the winners will be those that can withstand economic shocks and gain market share in a slow economy. With tight credit availability and deterioration of commercial real estate and commercial and industrial loans, a reallocation of market share is to be expected. Successful companies will hone their low-cost edge, gain market share and reward shareholders by returning cash when reinvestment returns do not justify capital expenditure. And, when acquirers knock on their door with “an offer they can’t refuse,” senior management may well hand over the keys and head for the golf course.

Fourth Quarter Fund Activity

Positive performers¹

In the fourth quarter, the strategy was able to add significant value through its holdings and positioning within the financial sector. The strategy was appropriately positioned in the consumer discretionary sector with a strategic underweight, as the Russell 2000 Value Index’s financial sector was the weakest sector in the quarter. Outperformance was generated through excellent stock selection in the thrift industry and the real estate investment trust industry coupled with our continuing underweight of commercial bank stocks.

Another positive relative performer was the portfolio’s technology sector. The outperformance was the result of good stock selection in the software industry. Excellent earnings releases from our software names resulted in the market rewarding the companies. These companies also provided a positive outlook for future results. As such, we still deem them undervalued.

Negative performers¹

The strategy struggled with its exposure to consumer discretionary stocks in the quarter. A considerable rebound in auto industry participants led to relative underperformance; our philosophy discourages investment in this area given how over levered the industry is because of significant pension headwinds. Specialty retail holdings also struggled, despite posting positive retail sales figures. The strong performance in the first three quarters for specialty retail probably led short-term investors to take profits. Our holdings in the luxury goods industry suffered in the quarter, due to a poor earnings report of a portfolio holding that is executing a turnaround strategy in the midst of the recession.

The materials sector’s relative underperformance was driven by negative allocation. We have continued to avoid the paper industry given the historical poor allocation of capital and its longer-term secular declining segments. The paper industry posted the highest total return in the materials sector, as volume rebounded off depressed levels. We continue to believe that our long-term secular declines will continue to plague this industry, warranting our avoidance.

Top Holdings (% of net assets) as of December 31, 2009

United American Indemnity	0.96
Greif Brothers	0.91
Werner Enterprises	0.84
Cash America International	0.82
H.B. Fuller	0.81
Pottlatch	0.76
First Citizens Bancshares	0.76
Nicor	0.74
Weis Markets	0.74
Avista	0.73

Portfolio holdings are subject to change periodically and may not be representative of current holdings. Current and future holdings are subject to risk, including, but not limited to, market and credit risk.

Sector positioning in the quarter

Throughout the quarter we began to shift the portfolio toward a more defensive position by adding to the health care and utility sectors. We are less confident that the pro-cyclical 2009 playbook will work well in 2010. As such, we have reduced our consumer discretionary, energy and real estate investment trust exposure, ending the year with underweights in all three areas. Within utilities, valuations have been compelling enough to warrant an overweight, and they have offered strong downside protection with strong and rising dividends. Utilities have also been prime candidates to grow due to the desire of our nation to increase our dependence on “green” energy. We have increased the portfolio exposure to modestly overweight utilities and feel that they offer a good risk-adjusted total return for our clients over the medium term. Within health care, we have increased our weight to neutral for the sector by adding to health care product and service providers. The drive toward universal health care will not be accomplished by the health care reform legislation in congress, however, as more individuals have coverage, we believe there will be a corresponding increase in usage of supplies and services (we are just not sure how it will be paid for). As such, we have been selectively adding to those names that meet our criteria and offer a sound risk-adjusted return over the next three to five years.

We have pared back our allocation to consumer discretionary, energy and real estate recently. The consumer discretionary sector was the second strongest sector in the index for the year. We still remain concerned that the consumer has overspent his savings and that the consumer’s balance sheet will need a multi-year high single-digit savings rate to start to return to normal. We do not expect the average consumer to resume massive consumption, as their home equity is small, if not negative, household credit will continue to contract with credit card reform, and unemployment has remained high. Energy rebounded strongly in 2009 and we have trimmed a couple of the names that have reached our fair value target given the price level of oil and natural gas. We have also reduced our weight in real estate investment trusts as significant compression in cap rates has led to a strong rebound in the equity values. Implied valuation reflects a much stronger rebound in occupancy than we expected, and, as such, we have remained very selective in our holdings.

Basket positioning

A tool we use to create alpha is our basket technique, which is designed to invest in attractive long-duration themes. Once a theme is identified, we seek out companies with operational exposure to a theme and invest in only those names that meet our rigorous strategic and valuation criteria. Weights in each name are determined by the liquidity available per name, the conviction of the operational exposure and the attractiveness of the valuation. Those that do not meet our strategic criteria will not be included in the strategy. We believe that over time approximately 50% of the strategy is associated with a basket. The basket approach expands the liquidity in the product, reduces stock-specific risks and increases the strategy exposure to the attractive theme the manager identifies.

Expanding an existing theme — electric transmission is now part of infrastructure theme

With the focus on health care in congress, an important piece of our nation’s infrastructure was left unattended. SAFETEA-LU, the highway transportation bill that helps fund infrastructure spending on a national level, expired on September 30, 2009, and was simply extended twice through February 28, 2010. Our contacts believe that there will be a brand new multiyear transportation bill that will be

considerably larger than the previous bill, as congress transitions from the health care focus to a focus on jobs.

Given the potential increase in highway bill funding — from a possible second stimulus being discussed that is centered around infrastructure — we felt it was important to expand electric transmission, which was a narrow infrastructure theme, to include the new spending to upgrade our roads, bridges and basic infrastructure. We still believe that the electric transmission theme is a central theme to help integrate “green” energy sources to demand centers, and so it remains a significant percentage of the overall infrastructure theme.

	Names	Weight	Q4 Portfolio Impact	Avg Basket Return
Total Baskets	105	42.8%		—
Aerospace	9	4.2%	0.23%	5.4%
Aging Population	8	3.1%	0.10%	3.2%
Alternative Finance	5	2.6%	0.09%	3.6%
Business Outsourcing	25	9.2%	0.59%	6.2%
Efficient Health Care	8	2.9%	0.30%	11.7%
Infrastructure	14	5.9%	-0.14%	-2.8%
Hidden Real Estate	8	3.9%	0.14%	3.4%
Housing Rebound	8	2.2%	-0.21%	-8.3%
Luxury Goods Basket	7	2.9%	0.09%	3.0%
Mutual Captial Structure	13	5.9%	0.10%	1.7%
Individual Selection	—	57.2%	—	—

Portfolio Positioning

At quarter end, the fund was weighted toward higher-quality companies (consistent with the portfolio managers’ philosophy), with stable, positive earnings, low volatility when compared to their peers, and a consistent value bias.

We continue to helm the Columbia Small Cap Value I Fund with the same high-quality, focused philosophy we have had since we took over the fund in June 2002. We believe that the market has presented us with a number of high-quality value opportunities and we look forward to sharing our results with our clients for years to come.

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.

The **Russell 2000 Value Index** tracks the performance of those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

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.

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

This fund is available with no transaction fee on all major platforms. The sales charge typically applied to Class A shares, which carry a 12b-1 fee, is waived for purchases of the fund through registered investment advisors (RIAs) and defined contribution (DC) plans. Class Z shares, also offered to RIAs and DC plans, are sold without a 12b-1 fee at NAV.

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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