

Large Cap Enhanced Core

Commentary

Products Covered:

- Columbia Large Cap Enhanced Core Fund

Domestic equity markets posted their third consecutive positive quarter of 2009.

Investment Risks

Risks include stock market fluctuations and changes in the values of specific fund holdings due to economic and business developments. Investing involves risks, including the loss of principal invested.

Quarter Overview

For the fourth quarter of 2009, Columbia Large Cap Enhanced Core Fund modestly outperformed its benchmark, the S&P 500 Index, after fees. The year and the decade ended on a high note, as domestic equity markets posted their third consecutive positive quarter of 2009. Although the markets took a pause during the month of October, the trend toward higher prices resumed in November and December. U.S. equity markets posted their biggest annual gain since 2003, and commodities rallied worldwide, as the Federal Reserve and other central banks kept interest rates at extremely low levels, and governments around the world enacted massive stimulus programs in an attempt to jump-start the global economy. At quarter end, the S&P 500 had moved 65% off its March 9 low and there were numerous data points, ranging from select areas of housing, manufacturing and credit market spreads, indicating that the global economy was stabilizing and possibly headed for growth.

Model Performance

The team uses computer-based models to analyze stocks within sectors. While maintaining sector-weighting neutrality relative to the benchmark, the models drive stock selection by focusing on factors within three themes: Quality, Valuation and Catalyst. Quality factors include profitability, and strength and sustainability measures such as ROA, ROE, receivables, reserve management and cash flow accruals. Valuation factors measure profitability-at-a-reasonable-price (PARP) and growth-at-a-reasonable-price (GARP) and include cash flow, operating income, sales, earnings, book value and risk-adjusted return. Examples of Catalyst factors include long- and short-term momentum measures and estimate revisions.

Model results improved during the fourth quarter, as there was a reversal of the low-quality beta rally that was characteristic of the market since it hit bottom in March 2009. Overall, the team's stock selection methodology delivered positive return spreads for the quarter, as the relationship among factor subcomponents (Quality, Valuation and Catalyst) appears to be returning to normal after experiencing severe dislocations for most of 2009.

Since March 2009, stock returns have been dominated by systematic risk factors as opposed to stock-specific metrics. The implication of this phenomenon was that individual stock characteristics were less important in distinguishing the returns across all stocks than marketwide (systematic) factors such as beta and volatility. Consequently, strategies that discriminate across the broad cross-section of securities based on their individual characteristics face a challenging environment.

Beginning in March, this macro theme was in play, causing correlations to increase across stocks and relationships among stock selection factors to depart substantially from the historical norm for most of the year. By the fourth quarter, we began to see some of these dislocations subside and correlations revert toward the mean, resulting in improved model performance. This can be clearly seen in a month-by-month analysis of factor returns. In October and November, the return to both beta and

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

Columbia Management Group, LLC ("Columbia Management") is the investment management division of Bank of America Corporation. Columbia Management entities furnish investment management services and products for institutional and individual investors. Columbia Funds are distributed by Columbia Management Distributors, Inc., member FINRA and SIPC. Columbia Management Distributors, Inc. is part of Columbia Management and an affiliate of Bank of America Corporation.

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

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

| | |
|-------------------|------|
| Microsoft | 3.01 |
| ExxonMobil | 2.72 |
| IBM | 2.12 |
| Apple | 2.05 |
| Johnson & Johnson | 2.05 |
| Hewlett-Packard | 2.00 |
| JPMorgan | 1.99 |
| Chevron | 1.89 |
| Procter & Gamble | 1.73 |
| General Electric | 1.66 |

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.

volatility was negative. Subsequently, the model subcomponents were able to discriminate among stocks and deliver outperformance across most models. In contrast, December saw the macro theme reassert itself, and there was a positive return to volatility. The model factors had a difficult month, especially the Quality subcomponent.

Historically, valuation strategies outperform following low-quality-driven markets. Our methodology has a strong Valuation subcomponent, and we observed a return of Valuation and Quality as drivers of excess return during the fourth quarter. The Catalyst factors also performed better at the end of year — an encouraging note, as 2009 was the worst year ever for those factors. It is difficult to determine if Q4 marks the end of the challenging environment for stock selection methodologies or just a temporary respite. We have observed this type of market regime at past market bottoms; however, this has been unprecedented in terms of both the magnitude and duration of the dislocation. The methodology is well-positioned to capitalize on any normalization, and we are encouraged to see recent signs of a reversion to the historical mean in the model subcomponents.

Performance Drivers¹

For the benchmark, the best-performing sectors were information technology (+10.8%), consumer discretionary (+9.1%) and health care (+9.1%), followed by materials (+7.4%), telecommunications (+7.4%) and utilities (+7.3%). Energy (+5.6%), industrials (+5.4%) and consumer staples also returned positive results for the quarter. In fact, nine of the 10 GICS sectors of the S&P 500 Index posted positive returns for the quarter, with only financials (-3.3%) delivering negative returns.

For the fund on a sector level, performance was aided by strong stock selection in the financials, energy and materials sectors. In particular, the portfolio benefited from limits on ownership of affiliated securities such as Bank of America stock. Within the energy sector, overweights to oil and natural gas company Apache and coal company Peabody Energy both benefited the portfolio, as did an underweight to ExxonMobil. Within the materials sector, being relatively overweight the benchmark in names such as International Paper and chemical and plastic manufacturer Eastman Chemical produced positive results for the portfolio.

The fund's performance was negatively affected by poor stock selection within the utilities and consumer discretionary sectors. Within utilities, a strong overweight to global electricity generator and distributor AES was the single worst contributor to the portfolio. In addition, a decision to underweight Amazon.com produced negative performance returns, as the stock performed well over the quarter. Despite the financials sector contributing positive returns overall for the quarter, five of the 10 worst-performing stocks were financials names, mostly due to a decision to overweight the consumer financial industry, which performed poorly.

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

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.

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.

There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. It should not be assumed that any securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions made in the future will be profitable or will equal the investment performance of the securities discussed herein.