

Large Cap Enhanced Core

Commentary

Products Covered:

- Columbia Large Cap Enhanced Core Fund

Quarter Overview

For the third quarter of 2009, Columbia Large Cap Enhanced Core Fund underperformed both its primary benchmark, the S&P 500 Index, and its secondary benchmark, the Russell 1000 Index. The third quarter saw the major market indices post impressive returns as the rally that began in Q2 continued through the quarter. The S&P 500 Index gained 15.61% for the quarter, making it the second consecutive quarter of returns in excess of 15%. Many cautious investors feared that a pullback would be inevitable heading into September, which historically has been a weak month for the equity markets. Fortunately, the market continued to climb the “wall of worry,” pushing its string of positive months to seven in a row as the reflationary theme continued to play out, benefiting economically sensitive sectors and financial stocks. The debate continues on how long the rally will continue and to what degree. However, considering the sentiment shift from the worst-case scenarios of bankruptcies and nationalizations to the optimism of green shoots and the possible end of the “Great Recession,” the market heads into the fourth quarter considerably higher from its lows, with an economy eagerly awaiting confirmation that better times could be ahead. Moving into the fourth quarter, the market will continue to contend with elevated unemployment levels and the possibility of new government reforms combined with a sluggish economy. Discussions are already turning to how governments around the world will contain what many feel could be excess liquidity in the system. Even with these challenges, the market sentiment overall has improved tremendously, although it will need to be reinforced with better fundamentals and clear signs of recovery moving forward.

Model Performance

The team uses computer-based models to analyze stocks, 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.

A common thread for the best performers, and a characteristic of the market movement in general during the quarter, was what we would consider “low quality.” This phenomenon was especially prevalent in the consumer discretionary sector, which saw volatile (high beta) names lead the rally. This typically has resulted in a challenging environment for our stock selection methodology, which emphasizes quality names at good valuation levels.

Return spreads for our valuation factors were essentially flat over the quarter. Quality factors returns were negatively affected over the quarter as the market rewarded the lowest priced, highest beta names in the market with some of the best returns. These types of “junk” rallies tend to occur at bottoms in the market and typically work themselves out over time as quality and valuation reassert themselves as drivers of

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 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.

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

**Top Holdings (% of net assets)
As of September 30, 2009**

Exxon Mobil	3.24
JPMorgan	2.48
Microsoft	2.23
IBM	2.22
Apple	1.93
Johnson & Johnson	1.79
Chevron	1.77
Hewlett Packard	1.74
Proctor & Gamble	1.73
Pfizer	1.70

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

performance. Returns to catalyst factors were negative again this quarter as the nature of the rally was that past poor performers subsequently posted the strongest gains. This is counterintuitive to the process our catalyst factors attempt to capture.

Performance Drivers¹

For the benchmark, the best performing sectors were financials (25.5%) followed by materials (21.5%), industrials (22.0%) and consumer discretionary (19.3%). All 10 GICS sectors of the S&P 500 Index posted positive returns for the quarter, with only telecom (5.6%) and utilities (6.2%) delivering somewhat moderate returns compared to the other benchmark sectors.

For the fund on a sector level, performance was aided by strong stock selection in the energy, materials, health care and utilities sectors. Within the energy sector, the portfolio benefited from overweight positions in oil and natural gas producer Apache and coal and natural gas producer Consol Energy. Eastman Chemical and International Paper were the top two contributors in the materials sector. Additionally, overweight positions in companies in the financials sector accounted for four of the top six contributors, including top contributor Genworth Financial as well as Discover Financial Services, Unum Group and Ameriprise Financial.

The fund was hurt by relatively weak stock selection in the consumer discretionary, industrials and telecommunication services. No individual stock selection within the consumer discretionary sector was in the top 10 worst contributors, but the especially low-quality/high-volatility nature of the rally in this sector resulted in it being the worst contributing sector for the portfolio. More specifically in industrials, underweight positions in General Electric and Caterpillar contributed negatively to the portfolio's performance. Within the telecom sector, the portfolio was overweight Sprint Nextel and Qwest Communications, both of which detracted from the portfolio's performance. Within the financials sector, the portfolio's inability to hold Columbia Management parent Bank of America proved to be detrimental for the period.

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.

The **Russell 1000 Index** is an unmanaged index that tracks the performance of 1,000 of the largest U.S. companies based on market capitalization.

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.

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