

We favor mortgage securities that are agency guaranteed; very short, well secured AAA-rated auto securities; and CMBS that amortize fully, without the need for borrowers to refinance balloon payments. We remain positive about corporate debt.

Investment Risks

Bond investing poses special risks, including the credit quality of individual issuers, possible 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.

Positive sentiment drove capital markets higher

As investor sentiment became more positive in the second quarter, capital market conditions improved and liquidity increased for a wide range of issuers. The government's efforts to revive various sectors of the credit market seemed to be taking hold, and yield spreads narrowed. Mortgage-backed and asset-backed securities continued to benefit from their inclusion in the Term Asset-Backed Securities Loan Facility (TALF) program. Commercial mortgage-backed securities (CMBS) benefited from their entry to the program, too.

With economic growth outweighing inflation as a concern, monetary policy remained unchanged. The Fed kept the federal funds target rate at between zero and 0.25%, where it has been since December. We believe that the Fed is unlikely to raise short-term rates until growth picks up. However, the bond market recognizes the potential for inflation from government stimulus and borrowing, and the yield curve steepened as intermediate- and long-term rates rose on supply concerns.

In this environment, the Barclays Capital 1-3 Year Credit Index outperformed same-duration Treasuries by more than five percentage points. AAA-rated auto ABS and short-duration AAA CMBS outperformed by six and seven percentage points, respectively. Columbia Short Term Bond Fund solidly outperformed its benchmark, the Barclays Capital 1-3 Year Government/Credit Index.

Underweight in Treasuries aided performance

All major non-Treasury sectors within the short-term bond market outperformed during the second quarter, and agencies contributed a narrow return advantage for the fund. Within the securitized sector, overweights in auto asset-backed (ABS), commercial mortgage-backed (CMBS) and mortgage-backed (MBS) securities enhanced performance as each sector outperformed Treasuries by a solid margin. In addition, an overweight in corporate securities benefited return as the Barclays Capital 1-3 Year Government/Credit Index returned five percentage points more than Treasuries for the quarter. Within the corporate sector, the fund's exposure to finance, insurance and REIT subsectors was positive for performance, as these subsectors outperformed the rest of the corporate market. Non-agency CMOs had a very strong quarter, but gave back a bit of performance in June.

Yield-curve positioning hampered return

In an effort to take advantage of the steep yield curve and better roll-down in the five-year part of the curve, we barbelled the fund. However, this positioning detracted from performance as the yield curve between one- and three-year Treasuries steepened while the move between two- and five-year Treasuries was essentially parallel.

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
NOT BANK ISSUED	No Bank Guarantee

Market outlook

Looking ahead, we plan to proceed with caution as the tug-of-war between conflicting forces continues. Concerns about a growing supply of bonds and increased prospects for inflation are likely to keep pressure on long-term rates while continued economic weakness and accommodative Fed policy keep rates short-term rates low. Because this is a risky environment, we are keeping the fund's duration neutral versus the index while structuring the fund to take advantage of a positively sloping yield curve.

In addition, the fund remains underweight in Treasuries, which we believe can continue to aid performance in the period ahead. We favor mortgage securities that are agency guaranteed. Within ABS, we favor well-secured, very short AAA-rated auto securities. And we remain invested in seasoned CMBS holdings that amortize fully without the need for borrowers to refinance balloon payments. Because corporate debt remains inexpensive by historical standards, we remain positive in our outlook for the sector.

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 **Barclays Capital 1-3 Year Credit Index** measures the performance of investment grade corporate debt and sovereign, supranational, local authority and non-U.S. agency bonds that are U.S. dollar denominated. The Index includes investment grade U.S. credit securities that have a remaining maturity of greater than or equal to 1 year and less than 3 year and have more than \$250 million or more of outstanding face value.

The **Barclays Capital MBS Conventional 15 Year Index**, a subset of the Barclays Capital U.S. MBA Index which measures agency mortgage-backed passthrough securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

The **Barclays Capital ABS Auto AAA Index**, a subset of the Barclays Capital The U.S. Fixed-Rate Asset-Backed Securities (ABS) Index, covers fixed-rate ABS with the following collateral types: credit cards, autos, home equity loans and stranded-cost utility (rate reduction bonds). To be included in the index, an issue must have a fixed-rate coupon structure, have an average life greater than or equal to one year, and be part of a public offering.

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

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