# Acorn International Select

FOURTH QUARTER 2009

**Commentary**

**Products Covered:**

- Columbia Acorn International Select

*We will continue to manage the fund in the style that has resulted in performance that exceeded both its benchmark and the average fund in its peer group for the fourth quarter and over the past three- and five-year periods.*

**Investment Risks**

International investments involve greater potential risks, including less regulation, currency fluctuations, economic instability and political developments. Investments in small- and mid-cap companies may be subject to greater volatility and price fluctuations because they may be thinly traded and less liquid. Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility.

## International equities continued to rebound

The market rebound that continued through the fourth quarter generally played out in a fashion consistent with a sudden subsidence of risk aversion across the board. The riskiest equities, including illiquid micro-caps, highly indebted companies and emerging market stocks, continued to lead the charge upward. In contrast, lower-risk markets such as Japan, where valuations are cheap, balance sheets overcapitalized and growth expectations too anemic to provide cause for disappointment, barely moved. The Japanese market rose a mere 4% in U.S. dollar terms in 2009. Across most markets, share price performance was negatively correlated with size, as smaller-capitalized stocks outperformed large caps.

In this environment, Columbia Acorn International Select outperformed its primary benchmark, the S&P Developed Ex-U.S. Between $2 Billion and $10 Billion Index, for the fourth quarter. The fund lagged its benchmark for the calendar year, as smaller, more leveraged and poorer-quality companies led the rally.

## Contributors and detractors[1]

Naspers, a media company with assets in South Africa and other emerging markets, was the top contributor to fund performance for the quarter and for the year. The company enjoyed strong earnings growth and has benefited from its stake in the rapidly growing Chinese Internet company, Tencent. Hexagon, a Swedish manufacturer of measurement equipment, was another strong performer. The company's business fundamentals remained robust throughout the recent recession, the result of its strong focus on emerging markets, where growth has proven to be more stable.

Potash producer Potash Corporation of Saskatchewan gained significant ground as the market's hopes of a bottoming, and subsequent rebounding, potash price fed through to the stock. Ascendas REIT, an industrial property landlord in Singapore, gained as the demand for property assets increased with the recovery in the Singaporean economy. Within the energy sector, Canada's Pacific Rubiales Energy, an oil production and exploration company with operating assets in Colombia, enjoyed impressive gains for the quarter and for the calendar year. The stock has benefited from increasing production and new exploration discoveries in Colombia as well as a rebound in oil prices.

Japanese stocks were weak in the fourth quarter as investors flocked to riskier investments and markets. Japan's Seven Bank, Rohto Pharmaceutical, Benesse, Ain Pharmaciez and Kamigumi all recorded losses. The Japanese economy continues to suffer from a deflationary environment and declining population. While stocks in Japan are beginning to look interesting from a valuation perspective, the growth outlook remains uncertain and investors generally reduced their Japanese holdings over the course of the year to focus on recovery stories in the United States and Europe and on growth in emerging markets.

# Acorn International Select

| Top Holdings (% of net assets) as of December 31, 2009 | |
|---|---|
| Naspers | 6.21 |
| Serco Group | 4.86 |
| Capita Group | 3.22 |
| NHN Corp | 2.93 |
| Ascendas Real Estate | 2.85 |
| Olam International | 2.78 |
| Red Electrica | 2.63 |
| Cobham | 2.60 |
| Kansai Paint | 2.58 |
| Intertek Group | 2.57 |

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.

## Looking ahead

Having positioned the fund to weather the previous downturn, it lagged its benchmark early in 2009 as markets were boosted by an unprecedented amount of monetary and fiscal stimulus. During this period, our focus for the fund has been on companies with competitive market positions and business models, longer-term growth prospects and solid balance sheets. These companies were not the strongest performers as investor appetite for risk returned and lower-quality stocks rallied in 2009. However, they turned the corner in the fourth quarter. We intend to continue to manage the fund following the approach that has resulted in performance that exceeded both its benchmark and the average fund in its peer group over the past three- and five-year periods.

**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 S&P Developed Ex-U.S. Between $2 Billion and $10 Billion Index is a subset of the broad market selected by the index sponsor representing the mid-cap developed market, excluding the United States.

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

[1] Determinations 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.

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