

Energy and Natural Resources

Commentary

Products Covered:

- Columbia Energy and Natural Resources Fund

We remain positioned for an eventual global upturn in the economy via exposure to the energy sector and a 29% weighting in natural resources.

Investment Risks

The share price of a fund that invests primarily in one sector will likely be subject to more volatility than a fund that invests across many sectors. The fund also has potentially greater price volatility due to the fund's concentration in a limited number of stocks. Securities of issuers in the energy and natural resources industry may underperform other market sectors or the market as a whole and may have greater volatility than other types of investments. Investments in precious metals are considered speculative and are affected by worldwide economic, financial and political factors. International investments involve greater potential risks, including less regulation, currency fluctuations, economic instability and political developments. The fund should be considered part of an overall investment program, and not a complete investment program.

Market Overview

Despite weak underlying supply/demand fundamentals, crude oil prices remained elevated, as investors migrated into crude oil as an asset class to hedge against a falling U.S. dollar and inflation concerns, stoked by the federal stimulus package.

Crude Oil Fundamentals: Growing Supply Constraint, Awaiting a Pickup in Demand

During the fourth quarter of 2009, crude prices fluctuated between \$70 and \$80 per barrel, closing toward the upper end with the arrival of arctic winter conditions in December. For the year, crude oil prices soared 78% from \$44 per barrel to \$79 per barrel for a quarterly average price in 2009 of approximately \$62 per barrel.

Absent a geopolitical event, the \$80-per-barrel level appears unsustainable with anemic demand in the developed countries, including the United States, evidenced by high gasoline and distillate inventories, a function of anemic truck and airline traffic volumes.

North American Natural Gas Fundamentals: Oversupply, Compounded by Demand Constraint Due to the Loss of Industrial Demand

In contrast to the disconnect in crude prices, North American natural gas prices continued to track poor fundamentals — remaining well below a normalized or midcycle price of \$6 per one thousand cubic feet (MCF) for most of the year — but were unusually volatile during the fourth quarter.

For the first nine months, natural gas prices steadily declined from \$5.82 per MCF as of December 31, 2008 to a yearly low of \$1.83 in early September, due to soaring natural gas inventory storage levels.

Following a mid-fourth-quarter rally to nearly \$5 per MCF in mid-October, prices plunged to a low of \$2.64 per MCF in mid-November at the outset of the peak winter heating season in reaction to warmer-than-normal weather and record inventory storage levels. Prices subsequently doubled to \$5.82 per MCF by year-end in reaction to a colder-than-normal December.

While world crude oil supply is structurally constrained, the newly emerging U.S. natural gas shale plays — notably the Barnett, Marcellus, Fayetteville, Woodford, Haynesville and now the Eagle Ford — have been game changing in terms of boosting domestic North American natural gas supply.

North American natural gas outlook: The major determinants of natural gas price moves during the first quarter of 2010 will be the level of producer supply response to higher prices, coupled with two unknown demand variables — the severity of winter weather in terms of residential heating load and a potential rebound in industrial demand.

We are concerned that a rising land rig count, coupled with three-way drilling efficiencies — significant reductions in drilling times, i.e., drilling days per well;

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

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

Apache	3.61
Schlumberger	3.55
Halliburton	3.28
Occidental Petroleum	3.17
United States Steel	3.00
Southwestern Energy	3.00
Transocean	2.90
Chesapeake Energy	2.82
Union Pacific	2.74
Freeport McMoRan Copper & Gold	2.50

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.

longer lateral extensions of horizontal wells into pay zones; and multi-stage fracturing of shale rock to further stimulate production — will win out over a potential resumption of industrial demand.

For purposes of equity valuations, we apply a normalized or midcycle commodity price deck of \$80 per barrel and \$6 per MCF for natural gas to determine upside to target prices.

Product Performance

During the fourth quarter 2009, Columbia Energy and Natural Resources fund underperformed its benchmark, the S&P North America Natural Resources Index, and the S&P 500 Index.

However, for the year ending December 31, 2009, the fund outperformed both the S&P North America Natural Resources Index benchmark and the S&P 500 Index, which gained 37.54% and 26.47%, respectively.

Contributors and Detractors¹

During the quarter, outperformers included two small-cap oil producers, Brigham Exploration, up 49% due to continued drilling successes in the Bakken oil play and Northern Oil & Gas, up 40%; Brazilian iron ore producer Vale, up 27%; and three metallurgical coal producers — Walter Industries, up 25%, Alpha Natural Resources, up 23%, and Peabody Energy, up 21% on surging import demand from China for coking coal and iron ore.

Laggards included small-cap oil and gas producer Sandridge Energy, down 26% on poor well economics and a dilutive acquisition; gold producer Agnico-Eagle Mines, down 20% on poor drilling results; utility AES Corporation, down 15%; oilfield service company Weatherford International, down 14% on budget cutbacks; and gas producer Chesapeake Energy, down 9% on budget concerns.

Portfolio Activity

Among the major oil exploration and production companies, we initiated positions in ConocoPhillips, in anticipation of favorable restructuring initiatives, and four oil and gas producers — CNQ Energy; Devon Energy, in anticipation of value creation from its asset sale program; Carrizo Oil and Gas, on improved drilling results in the Marcellus shale; and Denbury Resources, postacquisition of Encore Energy. With respect to the oilfield service sector, we initiated positions in two land drillers, Patterson Energy and Helmerich & Payne, to capitalize on a rising natural gas rig count; Smith International, post a dilutive share offering to fund bolt-on acquisitions; and Noble Drilling. We also initiated positions in two engineering and construction companies, Willbros Group and Jacobs Engineering, for exposure to the natural gas pipeline market build-out and a resumption in worldwide engineering projects. In the natural resources space, we initiated positions in junior gold-producer Novagold and International Paper in anticipation of a resumption in industrial activity.

These purchases were funded by sales of AES Corporation, Questar Exploration, McMoRan Exploration and Dow Chemical.

In summary, we remain positioned for an eventual global upturn in the economy via exposure to the energy sector and a 29% weighting in natural resources, notably copper, iron ore, metallurgical coal and steel, which are indirect plays on emerging market demand, particularly China.

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 North American Sector Index** provides investor with a suite of equity benchmarks that represent U.S. traded securities across seven broadly defined economic sectors: consumer, cyclical, financial services, health care, natural resources, technology, and utilities. Standard & Poor's uses the Global Industry Classification Standard (GICS®) to determine a company's sector classification.

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.

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