Disciplined Value

FOURTH QUARTER 2009

Commentary

Products Covered:

- Columbia Disciplined Value Fund

While the markets took a pause during the month of October, the trend toward higher prices resumed in November and December.

Investment Risks

Risks include stock market fluctuations and changes in the values of specific fund holdings due to economic and business developments. Value stocks may also be subject to specific business risks that have caused the stocks to be out of favor.

Quarter Overview

For the fourth quarter 2009, Columbia Disciplined Value Fund underperformed its benchmark, the Russell 1000 Value Index. The fourth quarter saw the major market indices continue to post positive returns, as the rally that began in the second quarter continued through the quarter. The Russell 1000 Value Index gained 4.22% for the quarter. The year and the decade closed out on a high note, as domestic equity markets posted their third consecutive positive quarter of 2009. While the markets took a pause during 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 jolt the global economy out of a deep recession. At quarter end, the S&P 500 Index 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, suggesting the global economy was stabilizing and could resume growing.

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 bottomed in March 2009. Overall, our 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.

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

Chevron	4.42
ExxonMobil	4.27
JPMorgan	3.98
General Electric	3.74
Pfizer	3.32
Wells Fargo	2.88
AT&T	2.77
Apache	2.52
Goldman Sachs Group	2.36
Procter & Gamble	1.97

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.

This macro theme was in play since March 2009, 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, the team began to see some of these dislocations subside and correlations revert toward the mean. As a result, model performance improved. This can be clearly seen in a month-by-month analysis of factor returns. In October and November, the return to both beta and 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. We also saw better performance of the Catalyst factors 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. The team has observed this type of market regime at past market bottoms; however, this has been unprecedented in both the magnitude and duration of the dislocations. We believe the methodology is well positioned to capitalize on any normalization, and the team is encouraged to see recent signs of a reversion to the historical mean in the model subcomponents.

Performance Drivers[1]

For the benchmark, the best-performing sector was health care (+12.3%) followed by materials (+9.6%), consumer discretionary (+9.0%) and telecommunications (+7.5%). All 10 GICS sectors of the Russell 1000 Value Index posted positive returns for the quarter except for financials (-3.5%).

For the strategy on a sector level, strong stock selection in the information technology, consumer staples, materials and energy sectors aided the portfolio's performance relative to the benchmark. Within information technology, an overweight to Computer Sciences was the strongest contributor. Within consumer staples, it was primarily an underweight to poor-performing CVS Caremark that led to positive relative returns for the sector. The materials sector benefited from overweights to Eastman Chemical and International Paper, and the energy sector benefited from overweights to oil and gas companies Apache and Chevron.

Performance was hurt most by poor stock selection across the consumer discretionary, financials and utilities sectors. Within consumer discretionary, overweights to poor-performing Garmin and GAP detracted the most. In the financials sector, an overweight to REIT HRPT Properties Trust made it the worst contributor in the entire portfolio. Overweights to JPMorgan Chase, Wells Fargo, Goldman Sachs and Discover also detracted from performance. Utilities sector underperformance was mostly driven by an overweight to electric company AES.

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 Russell 1000 Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Standard & Poor's (S&P) 500 Index 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.

[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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