

Small Cap Growth II

Commentary

Products Covered:

- Columbia Small Cap Growth Fund II

We have positioned the portfolio in small-cap growth companies that we believe will benefit from a cyclical economic recovery and whose valuations represent the best risk-reward scenarios for our shareholders.

Investment Risks

Share prices of small-capitalization companies tend to be more volatile because small companies often have narrower markets, limited financial resources and stocks that are not as actively traded as large company stocks.

Quarterly Market Recap

The domestic equity markets continued to rally during the third quarter on increasing evidence that the economy had stabilized and might soon be on a path to higher growth. The Russell 3000 Index, a proxy for the U.S. stock market, posted a gain of 59.31% for the period since the market low of March 9 to the end of the third quarter. During that time, the federal government injected an enormous amount of liquidity into the financial system to help speed the economic healing process. We've seen signs that the stimulus has begun to take hold, including improved business, consumer confidence, housing and manufacturing and tightening credit spreads that have resulted in increased corporate bond issuance.

From a market capitalization perspective, large-cap equities underperformed small-cap equities during the quarter based upon the Russell 1000 Index and Russell 2000 Index returns of 16.07% and 19.28%, respectively. In terms of investment style, value indices outperformed growth indices across the market-cap spectrum. Within the benchmark Russell 2000 Growth Index, all ten Global Industry Classification Standard (GICS) economic sectors posted positive absolute returns, led by the energy, materials and consumer discretionary sectors. The telecommunication services, consumer staples and utility sectors were areas that lagged the benchmark on a relative basis.

Columbia Small Cap Growth Fund II¹

Columbia Small Cap Growth Fund II underperformed the benchmark Russell 2000 Growth Index for the third quarter. Performance was helped by stock selection in the financials, materials and technology sectors, while security selection in the health care, consumer discretionary and telecommunication services industries hurt relative performance.

Within financials, holdings in boutique investment banks Evercore Partners and Greenhill contributed to performance, as they benefited from a structural shift away from traditional investment banking firms. Both companies have taken advantage of the turmoil on Wall Street by hiring good talent from distressed competitors. Additionally, both firms have seen a resurgence of activity in their restructuring businesses, as many overleveraged companies have sought their expertise in order to avoid bankruptcy filings. Also contributing to performance were holdings in real-estate-related industries. This includes Home Properties, whose multi-family portfolio has benefited from the credit crunch and the difficulty in obtaining mortgages. Additionally, Washington Real Estate Investment Trust contributed to performance, as its diversified properties are located in and around the Washington, D.C. market, which has held up better than other markets due to increased government-related spending. Within the materials sector, holdings in Solutia, a specialty chemical and material company with a global window tinting division, performed well during the quarter, as the company raised full-year earnings guidance and continued to strengthen their balance sheet by paying down debt. A holding in container and packaging company Greif also contributed to performance, as investors anticipated

Performance data quoted represents past performance, and current performance may be lower or higher. Past performance is no guarantee of future results.

Columbia Management Group, LLC ("Columbia Management") is the investment management division of Bank of America Corporation. Columbia Management entities furnish investment management services and products for institutional and individual investors. Columbia Funds are distributed by Columbia Management Distributors, Inc., member FINRA and SIPC. Columbia Management Distributors, Inc. is part of Columbia Management and an affiliate of Bank of America Corporation.

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

Top Holdings (% of net assets)	
Brightpoint	2.19
Psychiatric Solutions	1.84
Polycom	1.80
Knology	1.61
Iconix Brand Group	1.35
Net 1 U.E.P.S. Technologies	1.30
Equinix	1.30
TeleTech Holdings	1.23
Owens & Minor	1.12
Syntel	1.06

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.

that a recovering economy could result in an increased level of domestic and international trade. Handset distributor Brightpoint contributed to performance within the technology sector, as the company continued to benefit from new Smartphone contracts with vendors, as well as higher margins received in their growing logistic services division. Polycom, which provides video conferencing equipment and services, has benefited from corporations increasing their usage of video conferencing to cut down on travel costs. Also contributing to performance was a holding in Net 1 UEPS Technologies, a provider of a universal electronic payment system used to distribute welfare benefits and other services to citizens in South Africa. The company remains well positioned to continue expanding the number of people using their payment platform and related services, and is also making inroads into other developing countries.

Detracting from performance within health care was an underweight posture to biopharmaceutical company Human Genome Sciences, the stock of which rose dramatically during the quarter after reporting positive results from a late-stage study of their developing lupus treatment. Human Genome has collaborated with GlaxoSmithKline on this treatment and speculation about a potential acquisition also boosted the company's shares during the quarter. A holding in Alliance Healthcare Services, which provides outsourced diagnostic imaging services, detracted from performance as the company missed earnings expectations on lower revenue and saw greater competition and downward pricing pressures in their core markets. A holding in biotech drug developer Alkermes also detracted from performance, as the company announced lower earnings and the dissolution of a partnership with Johnson & Johnson on the development of a once-per-month anti-psychotic injection. Within the consumer discretionary sector, a position in Iconix Brand Group, which owns and licenses several apparel brands, cut their full-year earnings guidance due to the transition to a new licensee for one of its brands, as well as some dilution from its June share offer. An underweight position in home and kitchen products manufacturer Tupperware hurt relative performance, as the stock posted strong returns during the quarter. A high percentage of the company's total sales are internationally driven and have benefited from a weak dollar. High unemployment rates have also increased the company's direct sales force, as more people sought their own Tupperware distribution business. Within the telecommunication services sector, Neutral Tandem, which provides network interconnection services primarily to competitive wireless and wire line carriers, sold off during the quarter on fears that increased competition would take market share and compress the company's profitability.

Outlook

The amount of liquidity that has been injected into the marketplace over the past several months has ignited a rally in lower-quality and lower-priced equities, similar to the rally that was witnessed in 2003. The portfolio's investment bias toward higher-quality companies has acted as a headwind in this type of environment and relative performance has lagged. We believe that the market will become more rational and discerning in the coming months given, among other things, that the availability of credit is vastly different today than it was in 2003. We expect that quality growth companies with strong balance sheets and higher returns on capital will be identified and rewarded by the market and that this should help performance over the mid- to long-term time horizon. We have positioned the portfolio in small-cap growth companies that we believe will benefit from a cyclical economic recovery with valuations that represent the best risk-reward scenarios for our shareholders.

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 3000 Index** measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

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.

The **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The **Russell 2000 Growth Index** is an unmanaged index that measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

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.

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.

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.

There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. It should not be assumed that any securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions made in the future will be profitable or will equal the investment performance of the securities discussed herein.