Small Cap Core

Products Covered:

- Columbia Small Cap Core Fund

We continue to feel that 2010 equity returns will be determined by the magnitude of earnings gains.

Signs of economic stabilization extended equity market rally

Equity markets posted their third consecutive gain in the fourth quarter of 2009. Even though the markets took a pause in October, the trend toward higher prices resumed in November and December. For the year, the 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 jump-start economic growth out of a deep recession. At quarter end, the S&P 500 Index had moved 65% off its March 9 low. Numerous data points, ranging from selected areas of housing, manufacturing and credit market spreads, pointed to a stabilizing global economy.

Stronger-than-expected third-quarter earnings results drove fourth-quarter returns for small-cap stocks. In fact, third-quarter earnings versus expectations produced their second best showing in 11 years of tracking this data. Three quarters of the portfolio met or exceeded earnings expectation compared to one year ago when just about half of the portfolio hit consensus earnings, for the worst performance since we have tracked this data.

In this environment, Columbia Small Cap Core Fund edged out its benchmark, the Russell 2000 Index, which returned 3.87% for the fourth quarter. For the calendar year, the benchmark returned 27.19% and the fund's margin against the benchmark was one of its best in years.

Contributors and detractors[1]

For the quarter, the fund generated strong positive relative sector returns in financials, industrials, consumer discretionary and information technology. Individual standouts in the portfolio included Collective Brands (Payless Shoes), Providence Services, Progress Software and Sonic Solutions.

Materials and consumer staples detracted from relative performance for the quarter. STEC suffered a 44% decline. However, the stock was up 283% for the calendar year and contributed more than one full percentage point to the fund's calendar-year return. ResCare was another fourth-quarter disappointment. A large jury trial judgment went against the company, but we believe that the award has the potential to be substantially reduced upon appeal.

For the year, more than half of the fund's outperformance versus the Russell 2000 Index was driven by financials. An underweight in the sector, particularly in the banking industry, aided performance while the financials holdings in the fund outperformed the benchmark and gave an additional boost to relative returns. During the year, we added a half-dozen bank names, two insurance-related stocks, one broker, one REIT and one specialty finance company to the portfolio. Bank purchases all shared common themes:

- All purchases began with a follow-on offering.
- All of the offerings were priced at a discount to the market.

Investment Risks

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. 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.

Top Holdings (% of net assets) as of December 31, 2009	
Benchmark Electronics	3.04
Progress Software	1.97
UniFirst	1.64
H.B. Fuller	1.45
Res-Care	1.44
EMCOR	1.37
AAR	1.34
Invacare	1.32
Sensient Technologies	1.28
Kforce	1.26

Portfolio holdings are subject to change periodically and may not be representative of current holdings. Current and future holdings are subject to risk, including, but not limited to, market and credit risk.

- Asset quality at all six banks was better than at peer banks.
- The six banks elected not to take TARP money, have repaid TARP or were using some of the offering proceeds to repay TARP.
- All six banks were well-capitalized prior to their capital raise and became overcapitalized postoffering.
- The capital raised was intended for offensive purposes. Five of the six banks planned to use their excess capital to shop for FDIC-assisted deals. The other bank raised capital to buy an in-market distressed bank at a low valuation.

Health care, information technology and industrials were also strong relative to the benchmark for the calendar year. Unifirst, Providence Services, Hi-Tech Pharmacal, Kforce, Benchmark Electronics and STEC each contributed one percentage point or more to the fund’s return.

The consumer discretionary sector was the fund’s worst-performing group relative to the index for 2009. An underweight in retail stocks, which were stellar performers for the year, hampered returns. Underexposure to commodities detracted from results in the materials sector.

Looking ahead

As the U.S. economy continued to recover, manufacturing and service sectors produced positive results, the housing sector showed signs of stabilizing and the jobs data became less bad as the year wore on. In addition, companies have repaired their balance sheets, aided by better access to the capital markets. However, we believe that the commercial real estate correction is still in its early stage, which has the potential to delay any material recovery in the banking sector. Also, a strong commodities rally and low interest-rate environment have raised concerns that inflation may be heating up.

Against this backdrop, we continue to feel that 2010 equity returns will be determined by the magnitude of earnings gains. As the economy recovers and revenues begin to grow, we will see whether recent outsized expense cuts result in true operating earnings leverage. It remains to be seen how much of the cost reductions are permanent versus temporary and what happens to costs as business levels improve. We are also uncertain how much of future results have already been priced into stock valuations.

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 2000 Index** is an unmanaged index that tracks 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.

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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