



ColumbiaManagement®

Columbia Management Investor

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Inside Columbia Management

Q&A with Chris Thompson

Head of Product Management and Marketing

Q: In October, Columbia Management launched a national advertising campaign, The Rewards of Pursuit. The campaign captures the Columbia Management culture of passion, integrity and discipline. How do you think the new advertising campaign will benefit perceptions of the new Columbia Management?

A: We are introducing the new Columbia Management with a bold manifesto that makes a statement about our philosophy and core beliefs. The entire campaign highlights our unwavering focus on advisors, investors and institutional customers and our commitment to disciplined investing. Our goal is to increase the visibility around the many strengths of our teams and product solutions.

See page 5 for the article

Dividend-paying stocks:

An opportunity for buy-and-hold investors

There are many avenues investors can take toward building wealth. When it comes to equity investing, one common approach is to purchase quality dividend-paying stocks with the intent of holding them for the long term. To effectively use this strategy however, investors need to be patient and understand the virtues of dividends.

A primer on dividends

Dividends are paid by corporations as a way to distribute the earnings of the company to its shareholders. Further, dividends are typically paid quarterly in the form of money or stock and their amount is decided upon by a board

of directors. Most corporations take the management of their dividend-paying abilities and policies very seriously, since these factors will also tend to influence stock price.

Companies that consistently pay dividends and make a habit of raising them have historically outperformed the market, while companies that cut dividends have underperformed. A growing, sustainable dividend often means a company's management team is wisely using free cash flow to return value to shareholders. This factors substantially into return and can act as a stabilizing force in volatile markets.

Benefits of dividends

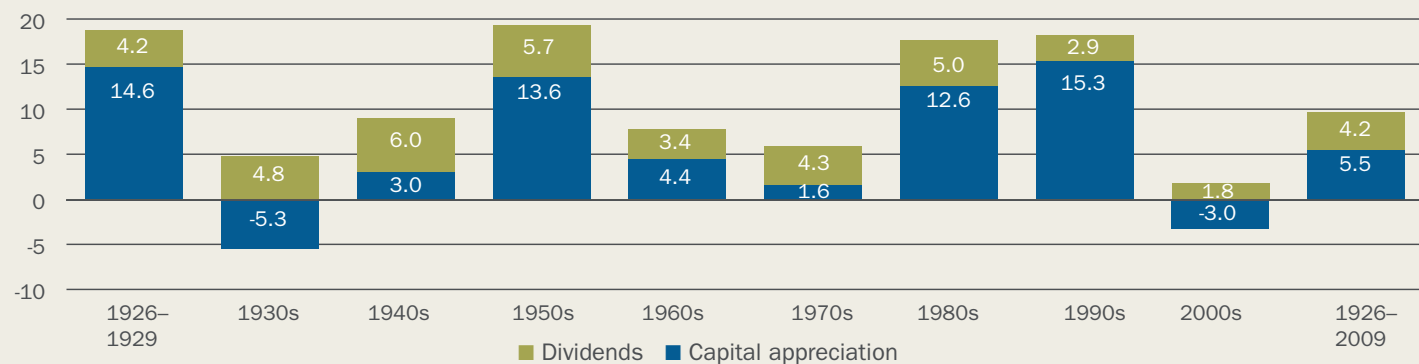
Dividend-paying stocks can be a favored investment for building wealth during both the accumulation and distribution stages of an investor's lifetime. These stocks can be a high-quality source of total return, especially when investors reinvest the dividends so they can compound over time. Likewise, the stocks can be a reliable source of income for retirees. Whether tax rates are going up or down, there can be a benefit to investing in quality, dividend-paying companies.

Continued on next page

Investors should also consider that dividend-paying stocks are subject to market risk, meaning that the market value of these stocks may fall, fail to rise, or fluctuate, sometimes rapidly and unpredictably.

Dividend-paying stocks: An opportunity for buy-and-hold investors (continued)

S&P 500 Index returns by decade Dividends vs. capital appreciation (%)



Why own dividend-paying stocks?

- > Adding stocks of companies that consistently grow their dividend may help buffer portfolio market volatility.
- > Dividend income has historically represented a significant portion of the S&P 500's total return when measured by decade.
- > Corporate dividend policies are often a sign of companies' overall fiscal health.

Source: Datastream as of 12/31/09

Dividend payments are not guaranteed. The amount of a dividend payment, if any, can vary over time.

Managing market volatility with short-term bond funds

Given the recent market volatility and the current uncertain interest rate environment, cash and Treasury securities may seem like a safe haven to protect your portfolio from loss. However, yields in these types of investments are at extremely low levels and may limit your ability to achieve your long-term investment goals.

The cost of cash

It's important to consider the opportunity cost of keeping a portfolio in cash or money market instruments. Even with low inflation, assets invested in cash are losing purchasing power daily. With money market rates at yields close to zero, you are paying for less volatility by earning effectively no yield. Because the largest component of bond returns tends to be income or yield over the long term, significant cash positions in a portfolio translates into lost yield. The longer your portfolio stays in place earning little to no yield, the further off track you may be from reaching your long-term goals.

Consider shorter duration assets

One of the ways investors traditionally protect themselves during an uncertain rate environment is by investing in shorter duration securities. Duration measures price sensitivity to changes in interest rates, so shorter term bonds are less sensitive to rate changes than longer term bonds.

A shorter duration portfolio experiences smaller price changes and also allows for faster reinvestment of cash flows. As cash is reinvested in higher yielding securities more quickly than longer dated maturities, the short-term portfolio's total return tends to improve. Keep in mind that the income or yield component of a fixed-income investment tends to dominate total return over the long term.

Continued on next page

*Managing market volatility with short-term bond funds (continued)***Types of shorter duration securities**

Several types of fixed-income securities offer higher yields and the potential for different return patterns than Treasuries as interest rates change.

Treasury Inflation-Protected Securities (TIPS)

TIPS are Treasury issues with a constant coupon and a principal value that is indexed to inflation.

Floating-rate securities

Certain corporate and asset-backed securities offer variable coupon rates that are regularly adjusted according to the movement of a specific index.

Mortgage-backed securities (MBS)

Commercial and residential MBS offer high credit quality and higher yields than Treasuries, but are more sensitive to changes in interest rates.

Corporate bonds

Corporate debt can offer higher yields and sometimes a significant yield advantage relative to other sectors in exchange for incremental risk.

The benefits of short-term bond funds

High-quality, short-duration bond funds that invest in various fixed-income sectors and offer active sector and duration management can help you enhance yield in your portfolio

while rates are low and give your portfolio some protection from rising rates. Talk to your financial advisor about whether short-term bond funds are right for your portfolio.

Please note that there are risks associated with fixed-income investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is more pronounced for longer term securities.

Find it @ columbiamanagement.com**Monitor your investments online**

Staying the course with your long-term investment strategy typically involves riding out various market cycles. Monitoring your investments is easy online at columbiamanagement.com. We provide convenient tools and the information you need to make prudent investment decisions.

- > Monitor daily mutual fund values and **monthly/quarterly performance**. From this screen, simply select a fund.
- > Access mutual fund and market commentaries for details on fund investments and the economic environment. Read **weekly updates** from our chief investment officer and chief market strategist and review **quarterly fund commentaries** and **white papers** on various financial issues.

- > Access your **account online**:*
 - Monitor your accounts online for balances, dividend and transaction information
 - Perform online transactions, including purchases, exchanges and redemptions
 - Update your account address and dividend payment options
 - Help the environment by signing up for electronic delivery of shareholder reports

These valuable online resources can help you monitor your investments and provide direct access to your account.

*Some restrictions apply.

Tips for making tax time less taxing

Whether you solicit the help of a tax professional or complete tax filings yourself, preparation is an essential and often times arduous task. Here are some helpful tips for gathering the information you'll need for your 2010 tax returns. A tax guide and other **tax resources** are also available online.

Here's a brief listing of some of the forms you or your tax professional may need to prepare your tax filings:

- > **W-2** Statement reporting your earned wages and taxes; issued by each employer you've worked for during the year

- > **1099-B** Statement from your broker or mutual fund company if you sold stocks, bonds or mutual funds during the year
- > **1099-DIV** Report of the dividends earned in your portfolio from individual stocks and the dividends and capital gains distributed from your mutual funds
- > **1099-INT** Form that you'll receive from your bank if you earned more than \$10 in interest on a bank account or certificate last year, or if you cashed in savings bonds during the year
- > **1099-R** Statement distributed to individuals receiving a pension or distribution from an IRA or retirement plan or who converted a traditional IRA to a Roth IRA or rolled over money from a 401(k) to an IRA

Issuers are required to send Forms W-2 and 1099 by January 31, 2011. If you don't receive them soon after that date, be sure to contact the issuer.

Specific records you may need

Charitable donations: When you give to charity, whether it is cash or goods, you need to have documentation, such as a receipt or canceled check if you anticipate itemizing for the

Change in filing deadline — April 18, 2011

Did you know that the IRS has approved Monday, April 18, 2011 as the tax filing deadline for 2010 federal tax returns and extension requests? Many states have extended filing deadlines to April 18 as well, but to be sure, you should confirm the date with each state with which you plan to file.

deduction on your return. This applies to donations under \$250. However, once you reach that \$250 mark, you need a donor acknowledgment letter specifying how much you gave, and/or describing the property you donated. If you received goods or services from the charity in exchange, that has to be in the letter as well.

Childcare records: If you paid a babysitter or daycare center, you'll need the name, address, amount paid and tax identification number for each provider.

Medical expense records: Did you save receipts and cancelled checks for medical expenses you incurred during the past year? If your medical expenses are greater than 7.5% of your adjusted gross income and you itemize your deductions, you may qualify for a deduction.

Mortgage/closing documentation: Money spent on mortgage interest, points (or loan origination fees), real estate taxes and prepayment penalties may qualify for tax deductions. You may also qualify for a deduction for any premiums you paid on mortgage insurance if you bought or refinanced your home this year.

Home improvement documents: Save receipts and records for any home improvements you make. While many of these improvements may not be deductible each year, they can be used to reduce your taxable gain in the event you sell your home. Energy-efficient upgrades to your home, however, may qualify you for an IRS Energy Credit. (Note: credits are only available to the extent you have a tax liability.)

Education expenses: You may be entitled to claim certain tax benefits for your education expenses. You may qualify to exclude from income items such as a qualified scholarship, interest on U.S. savings bonds or reimbursement from your employer. You may also qualify for certain credits or deductions. You should keep documents such as transcripts or course descriptions that show periods of enrollment, and canceled checks and receipts that verify amounts you spent on tuition, books and other educational expenses.

Please keep in mind these are just some examples of common expenses that may be deductible or qualify you for credit to offset tax liability. You should consult the IRS or a tax professional for more information.

Inside Columbia Management

Q&A with Chris Thompson

Head of Product Management and Marketing

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Q: From a product perspective, what is our biggest strength?

A: Our biggest strength is our investment talent and commitment to providing not just products, but real solutions. Our investment teams are uniquely focused on how their strategies can be designed for and used in investors' portfolios. Whether it is income solutions or improved return strategies, Columbia Management has the building blocks to compete successfully in this marketplace.

Q: What are the benefits to our shareholders regarding the recent product consolidation?

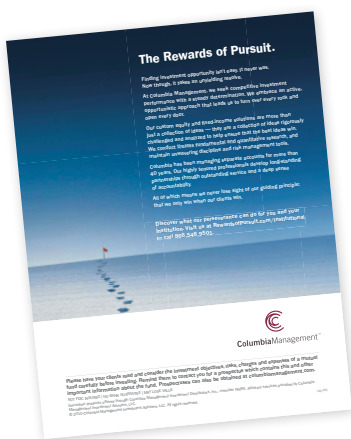
A: We've taken a hard look at what advisors and shareholders need in this rapidly changing environment. Our recent product rationalization effort provides greater focus and clarity around our key investment solutions. Our investment teams have fewer funds to focus on, and our product line is more clearly differentiated in the marketplace.

Q: How do you see the new fund fee structure benefiting shareholders?

A: Through the merger and pricing rationalization process, we estimate that our overall fees will fall. This demonstrates the Columbia Management commitment to providing competitively priced, strong performing investment solutions. As part of this effort, we sought to provide clarity and consistency in our pricing philosophy, which benefits both financial advisors and shareholders.

Q: Tax-sensitive investing is an important topic for investors. How do you see Columbia Management complementing tax-sensitive investing?

A: As emphasized in a recent Columbia Management white paper titled Retaining Wealth in a Rising Tax Environment, we believe tax-aware investing is a key theme in the marketplace. Through our strong performing tax-exempt fixed-income offerings and our broad array of tax-aware equity management processes, we seek superior after-tax returns for our investors.



The Rewards of Pursuit ad

Your investments

Myths surrounding portfolio risk

Myth #1: More holdings increase diversification.



One of the most common misconceptions about risk breaks down like this:

Risk stems from volatility > volatility is reduced by diversification > diversification is achieved through more holdings > having more holdings mitigates risk.

This doesn't tell the whole story, however, because the number of stocks in a portfolio doesn't necessarily equal meaningful diversification. The most glaring and common omission here is that it assumes an equal investment in each portfolio holding. Even for professionally managed portfolios invested in more than 100 stocks, it is not uncommon to find more than 40% of a portfolio's assets confined to the top 10 holdings.

Diversification does not assure a profit or protect against loss.

That leaves less than 60% of the portfolio's assets spread over the remaining 90+ holdings. In this scenario, it is easy to see how the level of risk diversification could be overestimated.

Investment studies also suggest that significant diversification can be achieved with just 20 stocks. In 2001, researchers (Campbell, Lettau, Malkiel and Xu) performed a study on the volatility of U.S. stocks, covering the years 1962–1997. Their findings were consistent with those of a 1977 study (Bloomfield, Leftwich and Long) that concluded that "A conventional rule of thumb is that a portfolio of 20 stocks attains a large fraction of the total benefits of diversification."

Myth #2: Investing across sectors is the strategy for true diversification.

Here's a myth that also contains notes of truth. As a general rule, greater diversification will result from spreading assets across multiple sectors. At the same time, many think of sectors as separate and distinct, as if divided by invisible lines. This is misguided. It is this thinking that leads to the first common misconception: that stocks in different sectors behave independently. In fact, they often act similarly. Knowing this, you might not be surprised that the second common misconception is that stocks in the same sector act in unison.

While this is often true, same-sector stocks can be identified whose actions are out of sync with the sector as a whole.

Financial experts measure the similarity or dissimilarity of how two stocks act in relation to one another as "correlation." Correlation helps reveal why the defining characteristics that place stocks in the same sector don't also determine that they'll necessarily share the same fate. Consequently, it is wrong to assume that a portfolio focused in one or several sectors isn't diversified and will be more volatile.

Myth #3: Portfolios aligned closely with their benchmark are less risky.

Since indices like the Standard & Poor's 500 Index are accepted as the bedrock standard for their respective asset classes, it comes as no surprise that many investors view portfolios that closely mirror their benchmark as less risky (and, conversely, ones that don't as more risky). The measure of this alignment is known as tracking error. For ease, a low value indicates a tight

alignment between the two, while a high value indicates a greater deviation.

Maintaining a low tracking error might seem like the strategic equivalent of a cub never straying far from its mother, but in practice this may merely give investors a false sense of security. Not being leashed to the benchmark gives the manager free rein to concentrate on high-quality and/or

Your investments

Myths surrounding portfolio risk (continued)

outstanding value opportunities. Meanwhile, committing to a low tracking error typically demands exposure to a number of the larger names in the index. This may force the manager into lower quality and/or overpriced companies. While pursuing a low tracking error may keep a portfolio's volatility statistics close to its benchmark, this approach is unlikely to significantly reduce downside risk or absolute volatility.

The moral of the story: In portfolios, big and small, risk management is about approach

When searching for an investment manager, look to those who proactively manage risk and make intentional investments through a combination of quality metrics, valuation and sophisticated portfolio construction techniques. These managers are the ones who are in an excellent position to provide investors with a compelling risk versus reward proposition.

Columbia Management call center receives 5-star rating

The Columbia Management client services team received the National Quality Review's (NQR) 5-Star rating for the past five consecutive quarters for call center service quality. NQR is a consulting firm that provides reliable service quality measurements and competitive analyses to financial services companies.

At Columbia Management, we recognize the importance of providing quality service to meet our shareholders' expectations and have made significant investments to achieve this goal. In conjunction with NQR, the highly trained staff at Columbia Management uses sophisticated systems and assembles quality review teams to continuously monitor performance results.

About NQR: NQR clients include many of the top mutual fund families and third-party transfer agents in the United States. Through comprehensive analysis of transaction processing, call quality and shareholder correspondence, NQR compiles competitive benchmark data from more than 35 mutual fund and banking clients.

If you would like more information about investment solutions at Columbia Management, please contact your financial professional or visit columbiamanagement.com.



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