



ColumbiaManagementSM

Columbia Floating Rate Fund

Hi, I'm Yvonne Stevens, a portfolio manager of the Columbia Floating Rate Fund. I've been investing in the bank loan market for more than 20 years and have been co-managing this fund with portfolio managers Lynn Hopton and Steve Staver since its inception.

What are bank loans?

The bank loan market is a unique asset class. Bank loans — also known as leveraged loans or floating rate loans — are made to companies with higher debt levels and below-investment-grade credit ratings. These loans are typically used to refinance existing debt, recapitalize an issuer's balance sheet, and, often, to finance leveraged buy-outs. The interest rate paid on a bank loan is tied to a base rate, such as LIBOR, which resets every 30, 60 or 90 days.

In a company's capital structure, a bank loan has the most senior priority, and, as such, is the first debt to be paid down in the event of a bankruptcy or liquidation.

Finally, bank loans are typically secured by collateral that may include most or all of the borrower's assets, and accounts for high recovery rates on loans of 70-to-80 cents on the dollar, compared to 30-to-40 cents on unsecured debt.

Why are bank loans an attractive asset class today?

The bank loan asset class is strong today on both a fundamental and technical basis.

On the fundamental side, corporations continue to deleverage. Balance sheets have improved and we expect this trend to continue over the next 18 to 24 months. Issuers have dealt with their looming debt maturities with an extremely receptive high-yield-bond market, as well as a revitalized loan market. Corporate earnings in our portfolio have also experienced a tremendous turnaround. We have seen cyclical names double their earnings capacity, as firms effectively cut expenses during the downturn and have been cautious about adding staff and increasing expenditures.

On the technical side, there have been strong inflows into the retail loan space and institutions are increasing allocations to floating rate as well. We have seen a recovery in mergers and acquisitions, equating to a new supply of loans for the market to invest in. We have also seen healthy spread tightening, which has been good for total return and demonstrates the market's perception of reduced credit risk.

What are the potential benefits for investors?

Bank loans offer investors several attractive features.

First, they have essentially no duration risk, as the interest income is tied to a floating index, such as LIBOR that adjusts every three months on average. Eventually, we believe the Fed will begin tightening, and interest rate risk will heighten. As investors begin to prepare for rising rates, the floating rate sector represents an attractive solution to balancing longer duration bond holdings in Treasuries, munis, high yield, and high grade.

Second, bank loans have been shown to have a low correlation to many other fixed-income asset classes, such as Treasuries and investment-grade bonds. This provides good diversification in terms of both credit and duration.

Third, since bank loans are secured by a lien on collateral, investors have historically experienced a higher recovery rate on their principal value in bankruptcy situations than in unsecured high-yield bonds.

What distinguishes the Columbia Floating Rate Fund from its peers?

Our team is focused on bottom-up, fundamental analysis. We have eight dedicated analysts who run their own proprietary rating and relative value models to assess an issuer's credit quality. We are focused on investing in loans that offer the greatest amount of return per unit of risk. We target large, public issuers that generally trade at tighter, bid-ask spreads than smaller issuers, and tend to be more liquid.

We also have a quality bias to the Credit Suisse Leveraged Loan Index, limiting our exposure to loans that are not rated by the public rating agencies. Over 95% of our fund is publicly rated versus about 85% of the loan index. It's our opinion that non-rated issues tend to be smaller, less liquid assets that are less appropriate for a daily liquidity fund.

A key part of risk/return management for us is maintenance of a highly diversified portfolio with moderate position sizes, and no single big bets in any particular company.

Finally, a key focus for us is actively exploiting market technicals. Our size allows us to run a nimble fund. Owing to our long tenure in both the retail and institutional bank loan space, we have great access to new and existing deal flow, allowing us to maximize our portfolio positioning in all market environments. Rather than pursuing a buy-and-hold strategy -- which many large competitors must do because of their size -- we can focus on total return. We are always looking for relative value through trading, with the goal of generating strong current income, preserving principal and avoiding downside credit risk.

Thank you for taking the time to hear about our process for managing the Columbia Floating Rate Fund. If you want more information on the fund, we encourage you to visit our website: columbiamanagement.com.

The views expressed are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, will not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not account for individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon, and risk tolerance. Asset classes described may not be suitable for all investors. Past performance does not guarantee future results and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. For a free prospectus, which contains this and other important information about the funds, visit columbiamanagement.com. The prospectus should be read carefully before investing.

Past performance does not guarantee future results.

There is no guarantee that the investment objectives will be achieved or that return expectations will be met.

The **Credit Suisse (CS) Leveraged Loan Index** is an unmanaged market value-weighted index designed to represent the investable universe of the U.S. dollar-denominated leveraged loan market. The index reflects reinvestment of all distributions and changes in market prices. It is unmanaged and unavailable for investment.

For more information about our fixed-income funds, including current performance, visit the Products & Performance section of our website: <http://www.columbiamanagement.com/products-performance/mutual-funds>

Investment products are not federally or FDIC-insured, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

The Fund is designed for investors with an above average risk tolerance. The market value of securities may fall, fail to rise, or fluctuate, sometimes rapidly and unpredictably. Market risk may affect a single issuer, sector of the economy, industry, or the market as a whole. Due to its active management, the Fund could underperform other mutual funds with similar investment objectives. The Fund invests primarily in floating rate loans, the market value of which may fluctuate, sometimes rapidly and unpredictably. Risks of investing in the fund include but are not limited to liquidity risk, interest rate risk, credit risk, counterparty risk, highly leveraged transactions risk, derivatives risk, confidential information access risk,

impairment of collateral risk, and prepayment and extension risk. Generally, when interest rates rise, the prices of fixed income securities fall, however, securities or loans with floating interest rates can be less sensitive to interest rate changes, but they may decline in value if their interest rates do not rise as much as interest rates in general. Limited liquidity will affect the ability of the fund to purchase or sell floating rate loans and have a negative impact on fund performance. The floating rate loans and securities in which the fund invests are lower-rated (non-investment grade) and are more likely to experience a default, which results in more volatile prices and more risk to principal and income than investment grade loans or securities.

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