



ColumbiaManagement<sup>SM</sup>

## Columbia Limited Duration Credit Fund

Hello, my name is Tom Murphy and I am co-portfolio manager of the Columbia Limited Duration Credit Fund, along with Tim Doubek.

I have been on the Fund Management team since its inception as an intermediate multi-sector fixed income fund back in 2003. Importantly, we changed the mandate of the Fund back in early 2009 to be 100% focused on credit-related securities, primarily investment grade and high yield corporate bonds with maturities of five years or shorter. Tim and I each have 20-plus years of experience managing corporate bond portfolios.

### **Why credit-related securities?**

We changed the Fund's mandate in 2009 to give investors a dedicated vehicle to take advantage of the tremendous opportunities available in shorter-term corporate bonds on the heels of the credit crisis and great recession. While there has been a healthy recovery in spreads and prices since then, we still believe a diversified Fund focused on short term credit securities warrants a place in many investor portfolios, based on both solid fundamentals and attractive relative valuations.

From a fundamental perspective, as we look across the fixed income landscape, there are basically three balance sheets that we can invest in: those of corporations, consumers or government entities. As we all know, consumer and government finances are still quite stressed.

Corporate credit fundamentals, however, are in excellent shape. Corporate performance through the Great Recession was impressive as companies grew leaner and managed their cost structures to deal with falling volumes and limited pricing power. As a result, corporations now have substantial operating leverage to the upside as the economic backdrop improves.

From a valuation perspective, shorter term corporate bonds offer generous compensation relative to U.S. Treasuries.

Lastly, we believe there is a much higher level of transparency in corporate credit than in other fixed income sectors and securities.

### **What opportunities does your fund offer investors in the foreseeable future?**

Strong corporate fundamentals are a nice tailwind for the type of securities we buy in Columbia Limited Duration Credit Fund. From a valuation perspective, short corporate bonds offer a generous yield pick up over Treasuries. A widely utilized index of one- to five-year corporate bonds currently has a spread over Treasuries between one-and-a-half and two times the levels it was on the last two occasions the Fed initiated monetary tightening campaigns. This incremental spread will provide more cushion to offset the deleterious impact of rising Treasury rates on the underlying corporate bonds.

In addition, the duration of the Columbia Limited Duration Credit Fund is plus-or-minus two years, which means it is much less sensitive to interest rate moves than funds that own longer maturity securities. Also, in the current low yield environment, investment grade corporate bonds are an attractive relative investment opportunity versus Treasuries, given that the percentage of their total yield that is represented by spread compensation for credit risk is two-plus times historical averages.

### **How is your fund positioned to take advantage of current conditions?**

Currently, the Columbia Limited Duration Credit fund is invested 90% in investment grade corporate bonds and 10% in high yield corporate bonds — almost exclusively in bonds with one- to five-year maturities. In comparison, the average fund in our sector

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allocates only about 40% of its assets to corporate bonds. There are only a handful of similar funds that are 100% dedicated to credit, which makes our Fund a unique offering.

Importantly, we leverage the work of 30-plus investment professionals, both Portfolio Managers and Credit Research Analysts who cover the investable universe of investment grade and high yield issuers, to build a well-diversified portfolio containing around 150 securities.

In the current market environment, we prefer companies in non-cyclical businesses that are generating solid positive cash flow and are asset rich. Although we are quite positive on corporate fundamentals, the Fund currently has a defensive tilt because we do not feel like we are being compensated to invest in most cyclical industries or companies, given current relative valuations. As such, we do not want to add that extra level of risk for our fellow investors.

Thanks for listening and for more information on the Fund, be sure to visit our web site: [columbiamanagement.com](http://columbiamanagement.com).

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There are risks associated with an investment in a bond fund, including credit risk, interest rate risk, and prepayment and extension risk. See the Fund's prospectus for information on these and other risks associated with the Fund. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities.

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The Barclays Capital U.S. 1-5 Year Credit Index is an unmanaged index of dollar-denominated, nonconvertible U.S. corporate fixed income securities. The index also includes specified foreign fixed-income securities that meet its maturity, liquidity and quality requirements. Only publicly issued fixed-income securities with a remaining maturity from one to five years are included. The index reflects reinvestment of all distributions and changes in market prices.

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