Columbia Tax-Exempt Fund

Fund performance

- Institutional Class shares of Columbia Tax-Exempt Fund returned -4.74% for the three months ending September 30, 2023. For monthly performance information, please check online at columbiathreadneedleus.com.

- The fund’s benchmark, the Bloomberg Municipal Bond Index, returned -3.95% for the same period.

- The fund underperformed its benchmark for the quarter, with its longer duration profile the major detractor from performance. (Duration is a measure of a bond’s sensitivity to changes in interest rates.)

Market overview

The Treasury and municipal markets experienced significant selloffs during the quarter, as the 10-year Treasury yield rose 73 basis points (bps), from 3.84% to 4.57%. (A basis point is 1/100 of one percent.) Municipal yields followed a similar but more pronounced path, with 10-year and 30-year yields increasing 89 bps and 85 bps, ending the period at 3.45% and 4.34%, respectively. Treasury and municipal yields reached multi-year highs. Inflation remains stubbornly elevated, despite the Federal Reserve’s aggressive rate-hiking cycle. The Fed hiked rates 25 bps in July and held steady through the end of the quarter, while indicating there may be one additional hike by year end. Investors are coming around to believing the Fed will hold rates higher for longer and will remain steadfast in its efforts to reduce inflation to its 2% goal.

The municipal market endured a difficult quarter, as the Bloomberg Municipal Bond Index returned -3.95%, underperforming the Bloomberg Treasury Index return of -3.06%. Longer bonds, with their greater interest rate sensitivity, underperformed their shorter counterparts as rates jumped higher. The Bloomberg 1-Year Municipal Index returned -0.09%, while the Bloomberg Municipal Long Bond Index returned -6.66%. Performance by credit rating was

Average annual total returns (%) for period ending September 30, 2023

<table>
<thead>
<tr>
<th>Share class</th>
<th>3-mon</th>
<th>1-year</th>
<th>3-year</th>
<th>5-year</th>
<th>10-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Class</td>
<td>-4.74</td>
<td>2.03</td>
<td>-2.88</td>
<td>0.15</td>
<td>2.14</td>
</tr>
<tr>
<td>Class A without sales charge</td>
<td>-4.87</td>
<td>1.82</td>
<td>-3.10</td>
<td>-0.07</td>
<td>1.93</td>
</tr>
<tr>
<td>Class A with 3.00% maximum sales charge</td>
<td>-7.71</td>
<td>-1.26</td>
<td>-4.07</td>
<td>-0.68</td>
<td>1.62</td>
</tr>
<tr>
<td>Bloomberg Municipal Bond Index</td>
<td>-3.95</td>
<td>2.66</td>
<td>-2.30</td>
<td>1.05</td>
<td>2.29</td>
</tr>
</tbody>
</table>

Performance data shown represents past performance and is not a guarantee of future results. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data shown. Please visit columbiathreadneedleus.com for performance data current to the most recent month end. Institutional Class shares are sold at net asset value and have limited eligibility. Columbia Management Investment Distributors, Inc. offers multiple share classes, not all necessarily available through all firms, and the share class ratings may vary. Effective February 18, 2015 the maximum sales charge changed from 4.75% to 3.00%. Contact us for details.
somewhat bifurcated with the highest and lowest rated segments of the municipal market posting the most significant losses.

The supply/demand technical environment remained mixed. Issuance of approximately $94 billion was lower than both the prior quarter and the same quarter one year ago. Low issuance has acted as a price support during the market sell-offs. Conversely, demand has been weak, given interest rate volatility and competing cash alternatives. Once the interest rate environment becomes clearer and rates plateau, we expect flows will return to the municipal market and support performance.

Fundamentals across most sectors remained healthy, defaults were low and upgrades continued to outpace downgrades. While U.S. states are sensitive to a possible economic slowdown or a capital market sell-off, many appear relatively well-positioned due to the ongoing strengths in the economy and labor market, high cash cushions, budget reserves, support from federal aid and relatively strong tax collections. In addition, many states have been managing recent budget surpluses conservatively in anticipation of a potential slowdown. However, a number of states, such as California and New York, have recently forecasted budget deficits in the coming years, and the municipal market will face additional pressures if the economy slows, unemployment rises and the costs of supporting increasing numbers of migrants continue to increase.

Quarterly portfolio recap

With the volatility surrounding interest rates, the team employed a Treasury hedge position, which was a positive contributor to returns for the quarter. Security selection in the 11- to 25-year and 30+ year portions of the yield curve, in addition to charter schools, also added to performance. However, an overweight to the 17+ year and an underweight to 8-years-and-below portions of the yield curve detracted, as rates sold off by more than 80 bps during the period. Security selection in AAA and AA rated bonds, along with hospitals, special tax, local general obligation (GO) and electric (specifically PREPA, the
Puerto Rico Electric Power Authority) also detracted from performance. Investors were blindsided when the bankruptcy court ruled that PREPA bondholders could only claim approximately 29% of the value of the utility’s outstanding debt. Bondholders have already begun to work on an appeal to the drastic reduction of their claim, and the process remains ongoing.

**Portfolio activity**

We continue to favor the up-in-quality trade based on an increased recession risk and persistent tight credit spreads in the lower quality segments of our market. Our credit analysts remain essential to identifying credits that may have a heightened level of risk or exposure to a potential economic slowdown. Throughout the quarter, we purchased a variety of higher quality positions in toll roads, airports, continuing care retirement communities (CCRCs) and AAA rated permanent school fund (PSF) paper. On the sales side of the ledger, we sold lower quality hospital positions and lower investment-grade revenue paper. We continue to maintain our long duration positioning and overweight to longer maturities. This positioning provides incremental income with strong total return potential in a stable or declining rate environment.

**Outlook**

A combination of events is putting pressure on the U.S. economy, which could potentially lead to a recession. Stubbornly high inflation, the impact of materially higher interest rates, the resumption of student loan payments, higher oil prices, increasing layoffs, the spreading impact of strikes, the increasing costs of migrants and the wars in Ukraine and Israel are expected to eventually push the U.S. into a recession. Even though the municipal market is traditionally thought of as a high-quality asset class, municipals are unlikely to come out of a recession completely unscathed. With a slowing economy, we expect inflation and interest rates would decline and that the currently tight credit spreads would widen. Such an environment should provide attractive investment opportunities to lock in higher yields and potential capital appreciation as interest rates decline across the municipal yield curve, particularly on the long end, and as credit spreads widen. The support of fundamental credit research will remain essential, particularly as the market considers the potential for a recession and the impact of the Fed’s rate-hiking cycle gradually moves throughout the economy.

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Investment Risks
Fixed-income securities present issue default risk. The fund invests substantially in municipal securities and will be affected by tax, legislative, regulatory, demographic or political changes, as well as changes impacting a state’s financial, economic or other conditions. A relatively small number of tax-exempt issuers may necessitate the fund investing more heavily in a single issuer and, therefore, be more exposed to the risk of loss than a fund that invests more broadly. Prepayment and extension risk exists because the timing of payments on a loan, bond or other investment may accelerate when interest rates fall or decelerate when interest rates rise which may reduce investment opportunities and potential returns. Non-investment-grade (high-yield or junk) securities present greater price volatility and more risk to principal and income than higher rated securities. Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. A rise in interest rates may result in a price decline of fixed-income instruments held by the fund, negatively impacting its performance and NAV. Falling rates may result in the fund investing in lower yielding debt instruments, lowering the fund’s income and yield. These risks may be heightened for longer maturity and duration securities. Federal and state tax rules apply to capital gain distributions and any gains or losses on sales. Income may be subject to state, local or alternative minimum taxes. Liquidity risk is associated with the difficulty of selling underlying investments at a desirable time or price. Investing in derivatives is a specialized activity that involves special risks, which may result in significant losses.

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

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