Fall 2019

COLUMBIA THREADNEEDLE INVESTMENTS

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INVESTOR NEWSLETTER

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Cover story:

Five-year forecast for asset class returns

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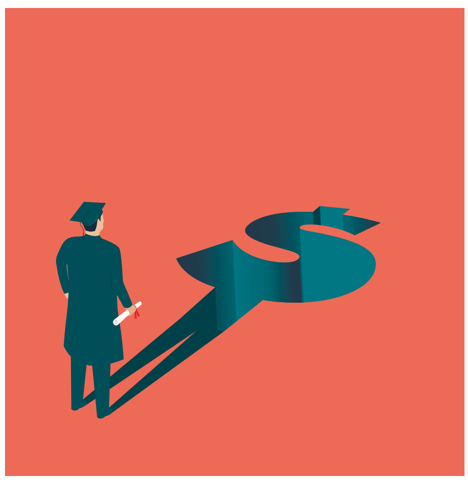
Solutions for a strategic approach to income

5 tips for taking distributions from a 529 plan

FEATURED STORIES

Fall 2019
Volume 9 Issue 4

Columbia Threadneedle Investor Newsletter is published quarterly online and features timely articles covering economic trends, investment strategies and solutions, and service changes.



ALSO INSIDE

FIVE-YEAR FORECAST FOR ASSET CLASS RETURNS

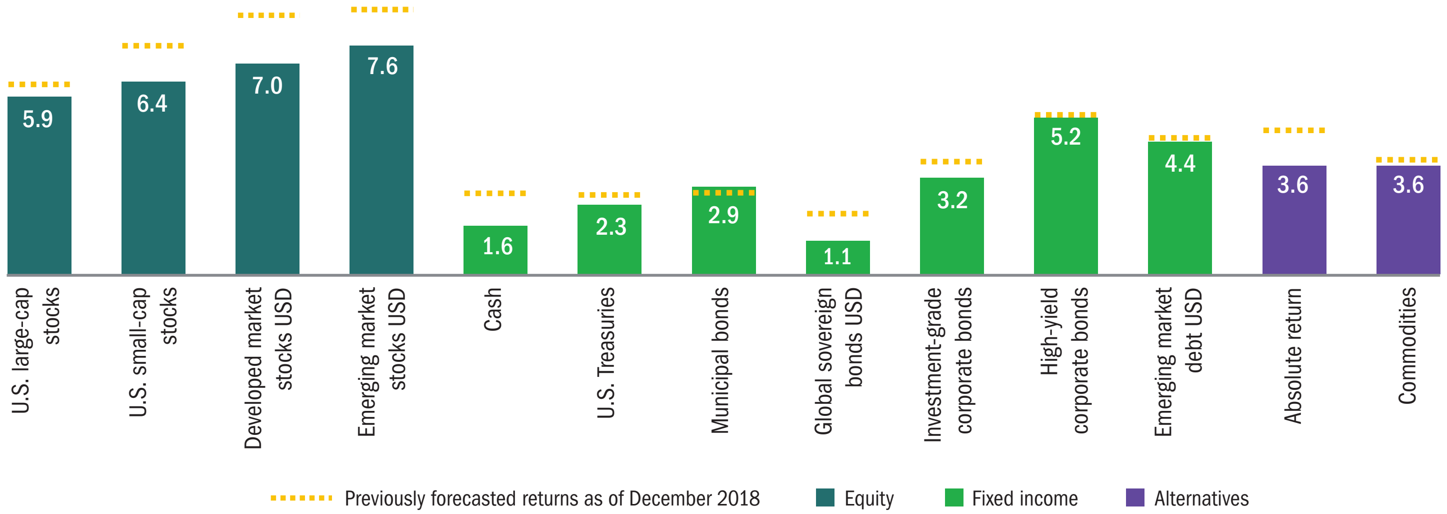
Downside risks to growth have increased, and trade policy risks have intensified. Here are the key takeaways from our five-year outlook.

ANWITI BAHUGUNA, Ph.D.

Senior Portfolio Manager and Head of Multi-Asset Strategy

The most recent update to five-year forecasted returns from the Global Asset Allocation Team at Columbia Threadneedle Investments predicts lower returns across asset classes. Anwiti Bahuguna, Ph.D., Senior Portfolio Manager and Head of Multi-Asset Strategy, explains how the team developed its forecast and makes the case for staying invested.

FORECASTED FIVE-YEAR TOTAL AVERAGE RETURNS BY ASSET CLASS (%)



Source: Columbia Threadneedle Investments as of July 2019. Past performance does not guarantee future results.

Q: What are the significant changes in the outlook since December 2018?

Anwiti: What most people may notice immediately is that the return forecasts are lower. Six months ago, the S&P 500 five-year forecasted return was 6.3%, and that's been cut to 5.9%. Returns are lower in fixed income as well. A significant driver of the fixed-income revisions was the change in the Fed's stance on rates — the pivot from hiking to a much more accommodative view. Expectations for yields have come down and returns are lower.

Q: How do you develop these forecasts?

Anwiti: Our five-year outlook is based on expectations for future earnings growth, and these expectations have come down to be in line with overall economic growth and inflation data. To develop our forecasts of expected return, we build three scenarios. Our baseline outlook is that we continue to see economic growth — perhaps a bit slower than we've seen recently as the boost provided by 2018 fiscal policy changes fades — but still in the range of 2%. With inflation expected at a similar rate, we see a nominal growth rate of 4%. Add to that the contribution of dividends, and we see stock returns of essentially 6%.

Q: What are some of the key risks that have developed over the last six months?

Anwiti: The great risk to our baseline case is the trade war. At the beginning of 2019, the outlook on trade was a bit more sanguine — there was an expectation that trade talks would yield an agreement. Talks faltered in May, and now it looks like a resolution will probably be delayed. If the trade war continues, the likely immediate effect would be higher inflation. In the final analysis, if there's a significant impact on growth — from a reduction in real purchasing power, reduced business capex and a stock market sell-off — the impact of these tariffs may be deflationary.

Q: Portions of the yield curve are inverted, which historically has been a precursor to a recession. Given the long-term nature of these forecasts, can you speak to that possibility?

Anwiti: The risks of a recession are elevated, but there are some positive data points to consider alongside the slowing growth and inflation numbers and the yield curve. The Federal Reserve Board is paying close attention to the economic data and has stated its commitment to supporting the economy. The Fed has made it clear that monetary policy will be accommodative for the foreseeable future, and this is ahead of any data actually indicating a recession. If this is true and the trade war doesn't escalate, it's tough to make the case that a recession will occur. Yield curves are imperfect predictors and they can also steepen. This hasn't happened yet, but the Fed hasn't implemented any cuts yet either. It's not out of the realm of possibility that we see a recession in the next three to five years, but we would not make the case for one in the next 12 months given the data and the Fed's prudent stance on monetary policy.

Q: What is the key takeaway from an asset allocation perspective?

Anwiti: Stay diversified. Don't let the recent data drive harmful long-term decisions. If you look at year-to-date returns across asset classes, they're very strong. Equity has been strong in the U.S. and internationally. Bond returns, especially in high yield, have also been very strong. For asset allocators, the forecast argues for staying invested while being mindful of the tactical changes that may need to happen.

Diversification does not assure a profit or protect against loss.

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SOLUTIONS FOR A STRATEGIC APPROACH TO INCOME

Our flexible solutions target specific goals in a portfolio: income generation, volatility management and total return production.

Planning for income in retirement is a primary investment goal for many, yet 60% feel stressed by preparing for retirement. This stress is often the result of facing a longer retirement than planned (40% have to retire earlier than anticipated due to a change at their company or a health issue), while still trying to generate stable income and grow their wealth.[1] Enhance your potential to achieve sustainable income by thinking beyond traditional strategies.

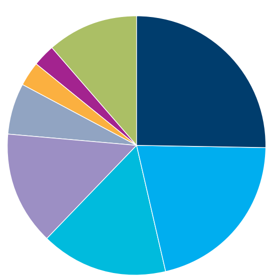
Our flexible solutions are designed to play specific roles in a portfolio: income generation, volatility management and total return production. We advocate for strategies that can capture opportunities in any market. These solutions are as diverse as your investment needs, delivering income flexibility and growth potential to help you build a well-diversified, resilient portfolio.

To learn more about our income solutions, contact your advisor or visit columbiathreadneedle.com.

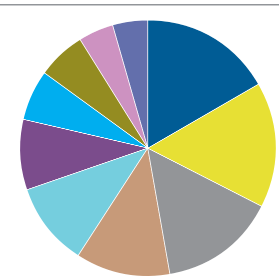
Capital stability with income — **Capital appreciation** with income

Fund name	Columbia Total Return Bond Fund	Columbia Strategic Municipal Income Fund	Columbia Strategic Income Fund	Columbia Floating Rate Fund	Columbia Dividend Opportunity Fund	Columbia Convertible Securities Fund	Columbia Dividend Income Fund
Ticker (Inst, Class A)	SRBFX/LIBAX	CATZX/INTAX	LSIZX/COSIX	CFRZX/RFRAX	CDOZX/INUTX	NCIAX/PACIX	GSFTX/LBSAX
Morningstar Category	Intermediate Core-Plus Bond	Muni National Long	Nontraditional Bond	Bank Loan	Large Value	Convertibles	Large Value
Fund highlights	Pursues strong risk-adjusted returns Diversifies to enhance a portfolio Calibrates risk at the portfolio level	Pursues attractive tax-exempt income Emphasizes a flexible investment approach Identifies opportunities and pitfalls through credit research	Focuses on delivering income in all markets Emphasizes flexible approach Provides global fixed-income exposure	Offers high income potential Focuses on risk-adjusted returns Takes advantage of proprietary credit research	Focuses on delivering dividends Enhances diversification Pursues underappreciated opportunities	Focuses on growth and income Diversifies to promote strong risk-adjusted returns Helps balance a portfolio	Focuses on sustainable income Pursues high-quality dividend-paying companies Emphasizes dividend growth

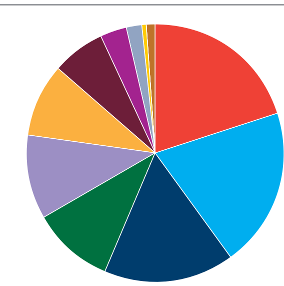
Top sector allocation



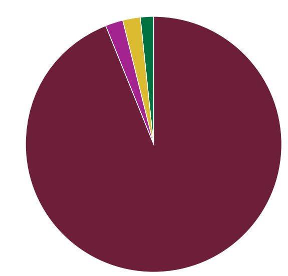
- MBS agency 32.8%
- MBS non-agency 27.3%
- Investment-grade credit 20.6%
- ABS 18.2%
- CMBS 8.1%
- Emerging markets 4.1%
- Cash and equivalents 3.5%
- Other -14.6%



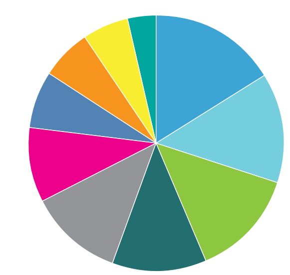
- Hospital 12.3%
- State general obligation 11.7%
- Airport 10.9%
- CCRC 8.7%
- Turnpike/Bridge/Tollroad 7.9%
- Local general obligation 6.5%
- Refunded/Escrowed 4.6%
- Single family housing 4.6%
- Multi-family housing 3.3%
- Transportation 3.1%



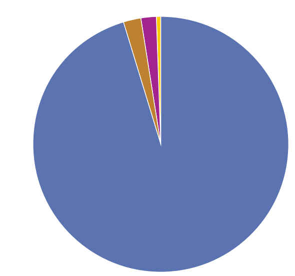
- Investment-grade corporates 20.6%
- MBS non-agency 20.3%
- MBS agency 16.7%
- High-yield corporates 10.6%
- ABS 10.6%
- Emerging markets 9.4%
- Bank loans 6.8%
- Cash 3.4%
- CMBS 2.0%
- Foreign developed 0.5%
- Global government-related 0.2%
- Other -0.9%



- Bank loans 93.9%
- Cash and equivalents 2.4%
- Equity 2.1%
- High-yield corporates 1.6%

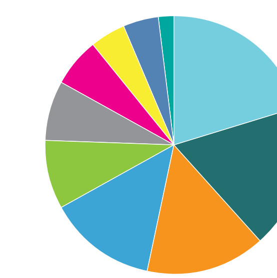


- Health care 16.0%
- Information technology 13.6%
- Consumer staples 13.2%
- Financials 11.8%
- Energy 11.5%
- Utilities 9.4%
- Consumer discretionary 7.0%
- Industrials 6.4%
- Communication services 5.6%
- Real estate 3.4%



ASSET ALLOCATION

- Convertibles 95.3%
- Domestic stock 2.2%
- Cash and equivalents 2.0%
- Foreign stock 0.4%



- Information technology 19.9%
- Financials 17.8%
- Industrials 14.7%
- Health care 13.3%
- Consumer staples 8.5%
- Energy 7.2%
- Utilities 6.1%
- Communication services 4.4%
- Consumer discretionary 4.2%
- Real estate 1.9%

Source: Columbia Threadneedle Investments, June 30, 2019.

Fund characteristics are as of the date given, are subject to change and are not recommendations to buy or sell any security.

Capital stability and/or appreciation of an investment is not guaranteed at any time, and reference scale is included for illustrative purposes only. There is no guarantee that any investment objective will be achieved or that return expectations will be met.

All investing involves risk, including the risk of loss of principal. **Diversification** does not assure a profit or protect against loss.

[1] The 2019 Retirement Confidence Survey by Employee Benefit Research Institute.

5 tips for taking distributions from a 529 plan

Before an investor starts taking distributions from a 529 plan, it's important to understand the mechanics and potential tax pitfalls. Our five tips can help.

529 plans offer many well-known benefits, including generous contribution limits, tax-deferred growth and tax-free distributions to fund qualified education expenses.

But the mechanics of 529 plan distributions can be confusing for account owners. These five tips may help investors avoid unintended tax consequences and, in some cases, even help account owners and beneficiaries take advantage of little-known tax benefits.

1. Many college expenses can be funded tax- and penalty-free — but not all.

Account owners can use earnings tax-free to pay for qualified education expenses at qualified institutions, including tuition, fees, books, computers, and room and board. But using earnings for non-qualified expenses may result in taxation plus a 10% federal penalty. Knowing what isn't considered qualified is critical.

2. Scholarships allow account owners to take non-qualified withdrawals penalty-free.

If an account beneficiary receives a scholarship, the 10% federal penalty that would otherwise apply to non-qualified distributions from the account is waived. And there's also some flexibility around how much can be withdrawn each year.

3. The IRS will send a 1099-Q, but that doesn't always mean you owe taxes.

All distributions from a 529 plan result in the generation of a 1099-Q, sent to the recipient of the distribution (either the education institution, the designated beneficiary or the account owner). A tax professional can help the recipient determine whether the withdrawal is considered a qualified distribution and what the tax consequences may be.

4. Be careful how much you withdraw in anticipation of future expenses.

Qualified distributions from 529 plans should be taken in the same taxable year the expense was incurred. But distributions don't need to be taken prior to, or in direct relation to, specific expenses. Account owners can easily reimburse themselves for expenses paid throughout the year with one distribution. But they should be mindful not to withdraw too much money in case expenses do not materialize — excess withdrawals usually can't be put back in the same beneficiary's 529 account.

5. 529A accounts offer special opportunities for people with disabilities and their families.

The Achieving a Better Life Experience (ABLE) Act and 529A accounts now allow individuals with disabilities to take advantage of 529 and 529A account saving strategies. ABLE accounts can be used tax-free to pay for any disability-related expenses. And certain investing strategies can help account owners take full advantage of ABLE accounts, beyond the $15,000 annual funding limit.

Bottom line

There's a lot of education on how to fund 529 plan accounts — how much to invest, gifting limits, etc. But knowing how and when to take 529 plan distributions can be just as important to participants. And understanding the mechanics and options can make for an easier experience, with fewer tax consequences.

Columbia Threadneedle Investments does not offer tax or legal advice. Consult with a tax advisor or attorney. Clients contributing to a 529 Plan offered by a state in which they are not a resident, should consider, before investing, whether their, or their designated beneficiary(s) home state offers any state tax or other state benefits, such as financial aid, scholarship funds or protection from creditors, that are only available for investments in such state's qualified tuition program.

Over $127,000 raised

A DAY OF FUN FOR A GOOD CAUSE

At the end of July, Columbia Threadneedle completed its fourth year as title sponsor of the Columbia Threadneedle Investments Boston Triathlon. The event continues to be a great success, with thousands of people taking part in the festivities.

Partnering with our race charity, Boston Medical Center (BMC), provides Columbia Threadneedle an opportunity to give back to the community where over 500 of our employees live and work. This year we raised over $127,000 for BMC's *Vision 2030*, their goal of making Boston the healthiest urban population in the world.

We look forward to our continued involvement and to delivering another fantastic race experience in 2020.

For more information about the 2020 Columbia Threadneedle Investments Boston Triathlon, contact our triathlon support team at:

TriathlonSupport@columbiathreadneedle.com

Official Race Charity Partner

Columbia Threadneedle Investments is a leading global asset manager that provides a broad range of investment strategies for individual and institutional clients. With 450 investment professionals across 17 countries, we manage $468 billion* across asset classes. Our global investment team debates and challenges their best ideas to make better decisions, leading to better outcomes for you and your clients.

To find out more, call 800.426.3750
or visit columbiathreadneedle.com

COLUMBIA THREADNEEDLE INVESTMENTS

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 columbiathreadneedle.com. Read the prospectus carefully before investing.

Class Inst 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. Contact us for details.

Portfolio characteristics are subject to change periodically and may not be representative of current characteristics.

Fixed-income funds: Investing involves risk, including the risk of loss of principal. Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. Fixed-income securities present **issuer default risk. Non-investment-grade** (high-yield or junk) securities present greater price volatility and more risk to principal and income than higher rated securities. 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. **Prepayment and extension** risk exist 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. **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 that subject the fund to significant loss potential, including when used as leverage, and may result in greater fluctuation in fund value.

Columbia Total Return Bond Fund: Foreign investments subject the fund to risks, including political, economic, market, social and others within a particular country, as well as to currency instabilities and less stringent financial and accounting standards than those generally applicable to U.S. issuers.

Columbia Strategic Income Fund: Floating rate loans typically present greater risk than other fixed-income investments, as they are generally subject to legal or contractual resale restrictions, may trade less frequently and experience value impairments during liquidation. **Mortgage- and asset-backed securities** are affected by interest rates, financial health of issuers/originators, creditworthiness of entities providing credit enhancements and the value of underlying assets. Foreign investments subject the fund to risks, including political, economic, market, social and others within a particular country, as well as to currency instabilities and less stringent financial and accounting standards generally applicable to U.S. issuers. Risks are enhanced for **emerging market and sovereign debt issuers.**

Columbia Strategic Municipal Income Fund: 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.

Columbia Floating Rate Fund: Investment in loans may include **highly leveraged transactions** whereby the borrower assumes large amounts of debt in order to have the financial resources to attempt to achieve its business objectives. These transactions involve greater risk (including default and bankruptcy) than other investments. Floating rate loans typically present greater risk than other fixed-income investments, as they are generally subject to legal or contractual resale restrictions, may trade less frequently and experience value impairments during liquidation.

Columbia Convertible Securities Fund: Convertible securities are subject to **issuer default risk. Short positions** (where the underlying asset is not owned) can create unlimited risk.

Columbia Dividend Income Fund and Dividend Opportunity Fund: Dividend payments are not guaranteed and the amount, if any, can vary over time.

The S&P 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks.

Past performance is not a guarantee of future results.

Equity forecasts are based on three components: expected dividend payments, expected earnings growth and change in valuation levels (price-to-earnings ratios). Expected earnings growth is driven by expected economic growth, input cost changes and pricing power. Fixed-income forecasts are based on the shape of the yield curve, direction of interest rates, increase/decrease in yield spreads and timing of those changes. The major asset classes are based on the following indices: U.S. large-cap stocks (S&P 500 Index), U.S. small-cap stocks (Russell 2000 Index), Developed market stocks USD (MSCI EAFE Index), Emerging market stocks USD (MSCI EM Index), Cash (FTSE U.S. Domestic 3-Month T-Bill Index), U.S. Treasuries (Bloomberg Barclays U.S. Treasury Index), Municipal Bonds (Bloomberg Barclays Municipal Bond Index), Global sovereign bonds USD (Bloomberg Barclays Global Treasury Index (excl. U.S.), Investment-grade corporate bonds (Bloomberg Barclays U.S. Aggregate Credit Index), High-yield corporate bonds (Bloomberg Barclays Corporate High Yield Index), Emerging market debt USD (JPMorgan EMBI Global Diversified Index), Absolute return (FTSE U.S. Domestic 3-Month T-Bill Index, Commodities (Bloomberg Commodity Index).

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* In U.S. dollars as of June 30, 2019. Source: Ameriprise Q2 Earnings Release. Contact us for more current data.

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