Thematic Insights

An In-depth Look at Tactical Investment Opportunities

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Opportunities in Infrastructure Investing

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Highlights

Recently, LPL Financial Research added exposure to Infrastructure Funds in our recommended portfolios. We feel this asset class has benefited from the following trends:

- Favorable demographic drivers
- Strong growth in emerging market nations
- Portfolio diversification opportunities
- The rebuild of Japan and the necessary update of the aging U.S. infrastructure

In general, Infrastructure Funds invest in the services for civilization to function and typically target the construction, energy, telecommunications, utilities, and transportation industries. These funds invest globally and may offer exposure to industries that can be characterized as steady growth or economically sensitive. By investing in essential services or necessities, Infrastructure Funds may gain exposure to steady growth industries that offer fairly consistent revenue streams regardless of economic conditions. They may also invest in industries that benefit from worldwide economic growth. For example, Infrastructure Funds may invest in the construction, expansion, or maintenance of airports, roads, utilities, and waterways that are demand-driven to meet the needs of the growing and expanding global economy.

For the long term, Infrastructure Funds may benefit from favorable demographic trends including increased population growth, greater urbanization, and overall improved living standards. With elevated market volatility expected throughout 2011, Infrastructure Funds, when included in a diversified portfolio, may help cushion against unexpected market fluctuations because of their modest correlation to major asset classes. Infrastructure Funds also stand to benefit from near-term opportunities including the continued pickup in worldwide economic growth, especially in emerging markets nations, the rebuild of disaster-stricken Japan, and the much needed efforts to update an aging U.S. infrastructure.

Key Reasons for Investing in Infrastructure Funds

There are several reasons why we believe favorable infrastructure trends could benefit Infrastructure Funds:

- **Demographic Drivers.** The need for infrastructure investment will likely be driven by a variety of secular forces associated with positive demographic trends:

  1. **Rising Population Growth.** As shown in the table, according to the United Nations (UN), the world is quickly becoming a crowded place. For example, assuming moderate population growth assumptions, in less than ten years from now worldwide population is expected to reach 7.7 billion (11% higher than today's levels). By 2030, the worldwide population is expected to exceed 8.3 billion, representing a 20 percent jump from 2010 levels. The rise in expected population will most likely put increased demand on essential services around the world, including energy distribution, water systems, and transportation networks.

Estimated Worldwide Population Growth (in '000s)

Year	World	Developed Nations	Less Developed Nations
2010	6,908,688	1,237,228	5,671,460
2020	7,674,833	1,268,343	6,406,489
2030	8,308,895	1,281,628	7,027,267
Growth Rate (2010 to 2030)	**20.3%**	**3.6%**	**23.9%**

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision, LPL Financial Research 04/13/11

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Because this urban population growth will likely strain existing resources, cities will need to expand infrastructure investing to support their higher population densities.

2. **Urbanization.** The migration of populations from rural areas into cities, also known as urbanization, will also increase the need for investments in infrastructure as more people squeeze into more concentrated areas. According to its report, *2009 Revision of World Urbanization Prospects*, the United Nations estimates that the urban areas of the world are expected to absorb all the population growth anticipated over the next four decades. Specifically, the UN estimates worldwide population to increase by 2.3 billion between 2009 and 2050, while the population living in urban areas is projected to increase by 2.9 billion over that period. Because this urban population growth will likely strain existing resources, cities will need to expand infrastructure investing to support their higher population densities. For example, measured in time wasted in traffic and lost productivity, the cost of congestion on the roads, airports, and other transportation networks can be significant for urban dwellers.
3. **Improving Living Standards.** In general, standard of living refers to the level of wealth, comfort, material goods, and necessities available to a certain socioeconomic class in a certain geographic area. As the worldwide population grows and the global middle class becomes more prevalent, factors that support improved living standards, such as better access to healthcare, higher quality and more available education, and healthier living conditions, will likely drive investment in infrastructure.

- **Growth in Emerging Markets.** While the global economy continues to exit from the Great Recession, as shown in the table, the biggest economic opportunity lies in emerging markets, especially China. Emerging markets have higher expected growth rates than developed economies and to continue this momentum, one can expect increased spending to both maintain and expand essential infrastructure including transportation networks (airports, railroads, streets and waterways), energy/utilities, and technology/telecommunications.

International Monetary Fund GDP Growth Estimates (2011 – 2012)

	2011	2012
World	4.4%	4.5%
Developed Markets	2.4%	2.6%
Emerging Markets	6.5%	6.5%
China	9.6%	9.5%

Source: April 2011 World Economic Outlook; International Monetary Fund (IMF)

This momentum may accelerate due to the increased urbanization trend in emerging market countries. According to the United Nations, most of the population growth expected in urban areas will be concentrated in the cities and towns of the developing nations. As previously noted, they estimate the population living in urban areas is projected to increase by 2.9 billion by 2050. However, over this same time period, within emerging market regions, Asia is projected to see its urban population increase by 1.7 billion, Africa by 0.8 billion, and Latin America and the Caribbean by 0.2 billion. Therefore, population growth is becoming largely an urban phenomenon concentrated in the emerging markets and, consequently, will require increased infrastructure investing.

Lastly, upcoming major sporting events hosted by emerging market countries will likely further accelerate infrastructure spending. In the next few years, major sporting events will take place in emerging market nations and will require significant infrastructure build-out that will have long-lasting economic benefits after the events have concluded. For example, the respective populations in Brazil and Russia will benefit from the needed infrastructure expansion for the 2014 World Cup (Brazil), 2016 Summer Olympics (Brazil), and the 2016 Summer Olympics (Russia).

- **Portfolio Diversification.** Infrastructure Funds can help diversify an investment portfolio. As shown in the table, *Correlation of Major Asset Classes Versus Infrastructure Funds*, these funds, as measured by the S&P Global Infrastructure Index, have historically possessed correlations below 1.0 to the returns of most major asset classes. In other words, while equities and bonds may increase (or decrease) in value in response to economic or market conditions, returns of Infrastructure Funds have historically behaved differently. Correlation measures how two asset classes move in relation to each other. A correlation of 1.0 indicates perfect correlation and implies the two asset classes will move in lockstep in the same direction. If the correlation is 0, the movements of the asset classes have no correlation. As a result, given their correlation of less than 1.0 relative to major asset classes, Infrastructure Funds offer some diversification benefits that may help smooth portfolio return volatility over the long term.

Correlation of Major Asset Classes Versus Infrastructure Funds

Asset Class	Index Proxy	Correlation
Large Cap U.S. Equities	Russell 1000	0.81
Small Cap U.S. Equities	Russell 2000	0.74
Large Cap Foreign	MSCI EAFE	0.92
Emerging Markets Equities	MSCI EMF (Emerging Markets)	0.84
Domestic Bond Market	Barclays Capital US Aggregate	0.22
Infrastructure Funds	S&P Global Infrastructure	1.00

Source: Factset; LPL Financial Research 04/13/11

Data as of 03/31/2002 to 03/31/2011

Correlation is a classical statistical method for measuring how closely related two series of data are. 1.00 suggests perfect correlation.

- **Rebuild Japan and Update Aging U.S. Infrastructure.** While demographic drivers, growth in emerging markets, and portfolio diversification benefits potentially offer long-term positives for infrastructure investing, the events in disaster-stricken Japan and the much needed efforts to update an aging U.S. infrastructure will likely escalate near-term investing in infrastructure. In Japan, it has been estimated that the rebuilding of quake-destroyed homes, businesses, roads, and seaports will require a 20 trillion yen ($235 billion) reconstruction package. In the United States, the aging infrastructure will likely require a much larger outlay. In a 2009 report on America's infrastructure, the American Society of Civil Engineers assigned a cumulative grade of D to the nation's infrastructure (see table for grades and infrastructure categories) and estimated that $2.2 trillion would be needed to restore it to acceptable levels in the next five years. The pressing need for infrastructure development, rebuilding, and maintenance in Japan and the United States will clearly require massive investment.

While there are potential opportunities in infrastructure investing, one caveat is that Infrastructure Funds may be negatively impacted by a sharp rise in interest rates. Higher interest rates may hurt global economic growth and raise financing costs. The latter of which may make investing in infrastructure projects less profitable and less attractive, consequently reducing the number of infrastructure investment opportunities.

2009 Report Card on U.S. Infrastructure

Infrastructure	Grade
Aviation	D
Bridges	C
Dams	D
Drinking Water	D-
Energy	D+
Hazardous Waste	D
Inland Waterways	D-
Levees	D-
Public Parks & Recreation	C-
Rail	C-
Roads	D-
School	D
Solid Waste	C+
Transit	D
Wastewater	D-

Source: ASCE.org/reportcard/2009/grades 04/13/2011

A = Exceptional; B = Good; C = Mediocre; D = Poor; F = Failing

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Implementing the Opportunity

Our top recommendation in the Infrastructure Funds asset class is the Columbia Recovery and Infrastructure Fund Z (CRIZX). Keep in mind that every investor situation is different and there are many factors you need to consider with your advisor before investing in a specific mutual fund.

Under the leadership of Warren Spitz, the fund seeks to invest in infrastructure-related companies that appear to be undervalued or may be temporarily out of favor, but believed to be entering a period of recovery. To manage this portfolio, Spitz uses a value-oriented, fundamentals focused process. He targets a wide range of companies that generate at least 50% of infrastructure-related revenues. From this wider universe, he narrows the portfolio to his top ideas that usually comprise 50–70 holdings. The manager strives to position the portfolio to reflect his belief that infrastructure is not just a short-term opportunity, but also an enduring theme that may potentially reward investors for decades.

With this in mind, the prime reasons we prefer this fund to implement the infrastructure theme are as follows:

- **Experienced Management Team.** Lead portfolio manager Warren Spitz has over 25 years of investment experience. His experience centers on long-term value management and helps provide an extensive knowledge of the industries that might benefit the most from infrastructure spending. Given our expectation of elevated volatility levels, we prefer to invest with experience in our models.
- **Likely to Benefit from Infrastructure Opportunities.** Consistent with the opportunities noted above, Spitz started this portfolio to benefit from his top-down, big picture belief that emerging markets will continue to build out their infrastructure and the United States and other developed nations are in the midst of a significant replacement cycle.
- **An Unconstrained Investment Strategy.** This fund has flexibility in investing in infrastructure opportunities. For example, Spitz can be fairly unconstrained in his portfolio composition allowing him to invest up to 25% of assets outside the United States (18.9% of total assets as of 3/31/2011), target any industry that he deems to be infrastructure-related, and invest across all market capitalizations.
- **Similar Bias toward Economically Sensitive Sectors.** LPL Financial Research continues to have a bias toward economically sensitive sectors in our recommended portfolios to benefit from the improving global economy and rising commodity prices. As shown, management has allocated the portfolio with a similar bias.

Sector Allocation as of 03/31/2011

Industrials	50.7%
Technology	25.9%
Energy	9.5%
Materials	9.2%
Consumer Discretionary	4.1%
Financials	0.6%
Total	**100%**

Source: Columbia Management, LPL Financial Research

Columbia Recovery and Infrastructure Z Performance (as of 03/31/11)

Fund Name	Ticker	QTD	YTD	1-Yr	5-Yr	10-Yr	Since Incep. 09/27/10	Gross Expense Ratio
Columbia Recovery and Infrastructure	CRIZX	9.72	9.72	N/A	N/A	N/A	32.33	0.95
Russell 3000		6.38	6.38	N/A	N/A	N/A	N/A	N/A

Source: FactSet 03/31/11

The performance data quoted represents past performance.

Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance information quoted.

To obtain current month-end performance information, please visit www.columbiamanagement.com.

The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 3%. Such fee, if taken into consideration, will reduce the performance above.

Gross expense ratio is the total annual fund operating expense ratio and can be found in the most recent prospectus.

This fund is subject to market risk as well as the additional risk of using leveraged and unconstrained strategies.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read carefully before investing.

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Correlation is a statistical measure of how two securities move in relation to each other. Correlations are used in advanced portfolio management.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Investing in mutual funds involves risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus.

International and emerging markets investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Stock investing involves risk including loss of principal.

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Industrials Sector: Companies whose businesses manufacture and distribute capital goods, including aerospace and defense, construction, engineering and building products, electrical equipment and industrial machinery. Provide commercial services and supplies, including printing, employment, environmental and office services. Provide transportation services, including airlines, couriers, marine, road and rail, and transportation infrastructure.

Technology Software & Services Sector: Companies include those that primarily develop software in various fields such as the Internet, applications, systems and/or database management and companies that provide information technology consulting and services; technology hardware & Equipment, including manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

Energy Sector: Companies whose businesses are dominated by either of the following activities: The construction or provision of oil rigs, drilling equipment and other energy-related service and equipment, including seismic data collection. The exploration, production, marketing, refining and/or transportation of oil and gas products, coal and consumable fuels.

Materials Sector: Companies that are engaged in a wide range of commodity-related manufacturing. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, metals, minerals and mining companies, including producers of steel.

Consumer Discretionary Sector: Companies that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles and apparel, and leisure equipment. The service segment includes hotels, restaurants and other leisure facilities, media production and services, consumer retailing and services and education services.

Financials Sector: Companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investment, and real estate, including REITs.

BENCHMARK INDICES

This Barclays Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

MSCI EAFE is made up of approximately 1,045 equity securities issued by companies located in 19 countries and listed on the stock exchanges of Europe, Australia, and the Far East. All values are expressed in U.S. dollars. All values are expressed in US dollars. Past performance is no guarantee of future results.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of May 27, 2010 the MSCI Emerging Markets Index consisted of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

The Russell 1000 Index consists of the 1,000 largest securities in the Russell 3000 Index, which represents 90% of the total market capitalization of the Russell 3000 Index. It is a large-cap, market oriented index and is highly correlated with the S&P 500 Index.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of the latest reconstitution, the average market capitalization was approximately $4 billion; the median market capitalization was approximately $700 million. The index had a total market capitalization range of approximately $309 billion to $128 million.

The S&P Global Infrastructure Index is comprised of 75 of the largest publicly listed infrastructure companies that meet specific investability requirements. The index is designed to provide liquid exposure to the leading publicly listed companies in the global infrastructure industry, from both developed markets and emerging markets.

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