UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 2354 / February 9, 2005

INVESTMENT COMPANY ACT OF 1940
Release No. 26755 / February 9, 2005

ADMINISTRATIVE PROCEEDING
File No. 3-11817

In the Matter of **ERIK GUSTAFSON,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER PURSUANT TO SECTIONS 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940 AND SECTION 9(b) OF THE INVESTMENT COMPANY ACT OF 1940**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") and Section 9(b) of the Investment Company Act of 1940 ("Investment Company Act") against Erik Gustafson ("Gustafson" or "Respondent").

II.

In anticipation of the institution of these proceedings, Gustafson has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940,

and Section 9(b) of the Investment Company Act of 1940 ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

1. This is a proceeding against Erik Gustafson, a former portfolio manager employed by Columbia Management Advisors, Inc. and predecessor entities"("Columbia Advisors"), the investment adviser to over 140 of the mutual funds in the Columbia mutual fund complex (the "Columbia Funds"). During at least 1998 through 2003, Columbia Advisors and Columbia Funds Distributor, Inc. ("Columbia Distributor"), the principal underwriter and distributor of those funds, violated antifraud provisions of the federal securities laws by allowing certain preferred customers to engage in market timing, or short-term or excessive trading, without disclosing these trading arrangements to fund shareholders or to fund trustees. In breach of its fiduciary duty, Columbia Advisors knew and approved of all but one of the short-term arrangements, and failed to prevent or allowed the practice of other short-term trading to continue despite knowing such trading could be detrimental to long-term shareholders in the funds.

2. During this period, Gustafson approved arrangements with at least four companies and individuals, allowing them to engage in frequent short-term trading in Columbia Funds for which he was the portfolio manager. The aggregate trading that occurred totaled hundreds of millions of dollars. After entering into these arrangements, the companies and individuals engaged in frequent short-term or excessive trading in at least nine different Columbia Funds. Such short-term and excessive trading benefited Columbia Advisors by increasing its management fees, and Columbia Distributor, which was compensated based on sales of mutual fund shares, but posed risks for investors in the funds in which short-term trading was allowed. In addition, some of the trading was inconsistent with disclosures in the Funds' prospectuses.

3. Throughout the relevant period, Columbia Distributors and Columbia Advisors including Gustafson, never disclosed to the shareholders or to the independent trustees of the Columbia Funds the special arrangements they made with these short-term or excessive traders and the potential harm these arrangements posed to the relevant Columbia Funds. Certain of these arrangements and trades made pursuant to them were directly contrary to representations made in fund prospectuses that the funds did not permit short-term or excessive trading. In other cases, the short-term trading pursuant to the arrangements was contrary to prospectus representations

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other persons or entities in this or any other proceeding.

that the funds in question would allow no more than three or four exchanges or telephone exchanges per fund per year.

4. By placing their own interest in generating compensation from short-term or excessive trading above the interests of long-term shareholders to whom this trading posed a risk of harm, and by failing to disclose these arrangements and trading and the conflicts of interest they created, rendering their prospectus disclosure materially misleading, Columbia Advisors and Columbia Distributor engaged in fraudulent conduct and Columbia Advisors breached its fiduciary duty to act at all times in the best interests of the Columbia Funds' shareholders. Through his role in approving some of these arrangements to time the fund portfolios he managed, Gustafson breached his duty to the funds and violated the federal securities laws.

Respondent

5. Erik Gustafson, of Chicago, Illinois, from 1995 to September 2003 was the portfolio manager of the two funds known successively as Stein-Roe, Liberty and Columbia Growth Stock and Young Investor.

Related Entities

6. Columbia Advisors, an Oregon corporation, is a wholly-owned subsidiary of Columbia Management Group Inc., which during the relevant period was a wholly-owned subsidiary of Fleet National Bank, which was a subsidiary of FleetBoston Financial Corporation ("Fleet"). Columbia Advisors has been an investment adviser registered with the Commission since 1969.[2] Columbia Advisors serves as the investment adviser to approximately 140 mutual funds in the Columbia family of funds ("Columbia Funds"). Throughout the relevant time period, shares of Columbia Funds were continuously offered and sold to the public.

7. Columbia Distributor, a Massachusetts corporation, is a wholly-owned subsidiary of Columbia Management Group, Inc. Columbia Distributor has been a broker-dealer registered with the Commission since 1992. It acts as the principal underwriter and distributor for the Columbia Funds and certain other mutual funds.

[2] In connection with its purchase of Liberty Financial Group ("Liberty") in November 2001, Fleet acquired various Liberty fund groups and investment advisers. In April 2003, most of these entities were merged with Fleet Investment Advisors Inc. into Columbia Advisors.

Facts

Background: Market Timing and The Prospectus Disclosures

8. Market timing includes (a) frequent buying and selling of shares of the same mutual fund or (b) buying or selling mutual fund shares in order to exploit inefficiencies in mutual fund pricing. Market timing, while not illegal per se, can harm other mutual fund shareholders because it can dilute the value of their shares, if the market timer is exploiting pricing inefficiencies, or disrupt the management of the mutual fund's investment portfolio and can cause the targeted mutual fund to incur costs borne by other shareholders to accommodate frequent buying and selling of shares by the market timer.

9. During the relevant period, the Columbia Funds made certain prospectus disclosures relating to market timing. From 1998 through 2000, the prospectuses for some of the Columbia Funds contained disclosures stating that generally shareholders would be limited in the number of exchanges they could make during a given year. In the Fall of 2000, a number of the Columbia Funds then advised by subsidiaries of Liberty began including in their respective prospectuses the following disclosure (the "Prohibition"):

> The Fund does not permit short-term or excessive trading in its shares. Excessive purchases, redemptions or exchanges of Fund shares disrupt portfolio management and increase Fund expenses. In order to promote the best interests of the Fund, the Fund reserves the right to reject any purchase order or exchange request particularly from market timers or investors who, in the advisor's opinion, have a pattern of short-term or excessive trading or whose trading has been or may be disruptive to the Fund. The funds into which you would like to exchange may also reject your request.

By the Spring of 2001, the rest of the Columbia Funds belonging to Liberty, including the Growth Stock and Young Investor funds managed by Gustafson, began including the Prohibition in their prospectuses. Columbia Advisors retained this disclosure language upon Fleet's acquisition of Liberty, and in early 2002, adopted the same disclosure for most of the funds that had been advised by subsidiaries of Fleet prior to the acquisition.

Respondent Agreed to Allow Short-Term or
Excessive Trading In Columbia Funds He Managed

10. During the period from at least 1998 until Summer 2003, Gustafson approved at least four arrangements with investment advisers, hedge funds and individual investors allowing them to engage in frequent trading in the mutual funds for which he served as portfolio manager. These investors made multiple "round trips" per month (each round trip consisting of a purchase and subsequent sale of some or all of the purchase amount, or an exchange into the fund followed by an exchange out of the fund of some or all of the initial exchange amount) and some made

hundreds of round trips. A significant portion of this trading was inconsistent with the prospectus disclosure for the funds in which it occurred.

A. Ritchie Arrangement and Trading

11. From June 2002 through September 2003, Ritchie Capital Management, Inc. ("Ritchie"), a hedge fund manager, traded frequently in the Columbia Growth Stock Fund (formerly the Stein-Roe Advisor Growth Stock Fund) ("Growth Stock Fund"), a large cap fund managed by Gustafson.

12. In early 2003, Ritchie entered into a "sticky-asset" arrangement, approved by Gustafson, under which it agreed to place $20 million in the Growth Stock Fund, trade up to $2 million at a time with no limits on the number of trades per month, and place another $10 million in the Columbia Short Term Bond Fund as a "static" (non-trading) asset. Overall, pursuant to its arrangement, Ritchie made approximately 18 round trips in the Growth Stock Fund from June 2002 through September 2003. During the entire period, the Fund's prospectus contained the Prohibition language set forth in paragraph 9 above.

13. Gustafson participated in calls and exchanged e-mails about potential terms of Ritchie's arrangement to time his fund. After the arrangement became effective in 2003, Gustafson sought additional investments from Ritchie.

B. Calugar Arrangement and Trading

14. In or around April 1999, after meeting with Gustafson, Daniel Calugar ("Calugar") reached an arrangement allowing him to place up to $50 million in the Columbia Young Investor Fund ("Young Investor Fund") and the Growth Stock Fund, with permission to make one round trip per month using his entire position. Calugar's proposed investment made up about 5% of each fund. Gustafson approved the arrangements to time his two funds. At the time of the arrangement and up to February 2001 when it adopted the Prohibition disclosure, the prospectus disclosure for the Young Investor Fund stated that investors were generally limited to four telephone exchanges or round trips per year.

15. In 2000, Calugar, on average, made more than one round trip every trading day in various of the Columbia Funds. Throughout the year, Calugar made over 200 round trips in the Young Investor Fund, placing trades of up to $2.3 million at a time. During the period from January 2000 through February 2001, Calugar also made nearly 70 round trips in the Growth Stock Fund, placing trades of up to $4 million at a time. Overall, during the period he traded, Calugar made at least 980 transactions in the Growth Stock Fund, with purchases totaling approximately $725,000,000 and at least 750 trades in the Young Investor Fund, with purchases totaling approximately $436,000,000. Before Calugar's trading ceased in August 2001, both funds had adopted the Prohibition disclosure in their prospectuses, prohibiting short-term or

excessive trading.

C. D.R. Loeser Arrangement and Trading

16. In late 1998, Gustafson approved an arrangement with D. R. Loeser ("Loeser"), a registered investment adviser, allowing Loeser to make five round trips per month of up to $8 million in the Growth Stock Fund. During the period it traded, from late 1998 to early 2000, Loeser made at least 120 trades in the Growth Stock Fund, with purchases totaling approximately $483,000,000. It made over 100 transactions in the Young Investor Fund, with purchases totaling approximately $391,000,000. During this period, the prospectus disclosure for the Young Investor Fund stated that investors were generally limited to four telephone exchanges or round trips per year.

D. Signalert Arrangement and Trading

17. In 1999, Gustafson approved an arrangement with Signalert, a registered investment adviser. Under the arrangement, Signalert could place up to $17.5 million in each of the Growth Stock and Young Investor funds, and make up to twelve round trips per year in each fund. Signalert was required to keep other assets in a money market fund, allowing Columbia Advisors to generate a management fee from those assets. At the time of the arrangement and thereafter until adoption of the Prohibition disclosure in February 2001, the prospectus disclosure for the Young Investor Fund stated that investors were generally limited to four telephone exchanges or round trips per year.

18. During the first 11 months of 2000, Signalert made over 60 round trips in the two funds, one every one to two weeks. Overall, during the period January 2000 to December 2001, Signalert made at least 120 transactions in the Growth Stock Fund, with purchases totaling approximately $45,000,000, and over 100 transactions in the Young Investor Fund, with purchases totaling approximately $40,000,000. From February 2001 on, Columbia Advisors had included the Prohibition disclosures in the prospectuses for these funds, stating that short-term or excessive trading would not be permitted. Yet, from February 2001 through August 2001, Signalert made 20 round trips in the Young Investor Fund. It also made over 20 round trips in the Growth Stock Fund from February 2001 through December 2001.

Respondent Knew That Short-Term or Excessive Trading
Harmed or Created a Risk of Harm to the Funds

19. Gustafson knew or was reckless in not knowing that short-term or excessive trading caused potential or actual harm and disruption to the Columbia Funds. He knew or was reckless in not knowing that the arrangements he approved were undisclosed and in many instances inconsistent with the Funds' prospectus disclosures, as well as detrimental to the Funds.

Violations

20. As a result of the conduct described in Section III above, Gustafson willfully aided and abetted and caused Columbia Advisors' violations of Sections 206(1) and 206(2) of the Advisers Acts in that Columbia Advisors, while acting as an investment adviser, employed devices, schemes, or artifices to defraud clients or prospective clients; and engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon clients or prospective clients. Specifically, Columbia Advisors permitted short-term and excessive trading, contrary to the prospectus disclosure for the funds traded. In addition, Columbia Advisors breached its fiduciary duty to the Funds when it failed to disclose to the fund boards or shareholders the conflicts of interest created when it placed its own interest in accepting market timing money to generate fees above the interests of long-term shareholders, who were harmed by market timing. Gustafson knew or was reckless in not knowing that the arrangements he approved were undisclosed or contrary to the Funds' disclosure. He knew or was reckless in not knowing that allowing investors to market time his funds would negatively impact the funds' other shareholders by imposing costs on the fund and diminishing long-term shareholders' gain. By approving undisclosed timing arrangements, Gustafson breached his duty to the funds and their shareholders.

Undertakings

21. Gustafson undertakes to cooperate fully with the Commission in any and all investigations, litigations or other proceedings relating to or arising from the matters described in the Order. In connection with such cooperation, Gustafson agrees:

a. To produce promptly, without service of a notice or subpoena, any and all documents and other information requested by the Commission's staff;

b. To be interviewed by the Commission's staff at such times as the staff reasonably may direct;

c. To appear and testify truthfully and completely without service of a notice or subpoena in such investigations, depositions, hearings or trials as Commission's staff reasonably may direct; and

d. That in connection with any (i) testimony of Respondent to be conducted by interview or at deposition, hearing or trial or (ii) requests for documents or other information, any notice or subpoena for such may be addressed to Respondent's counsel and be served by mail or facsimile; and Respondent agrees that any notice or subpoena for Respondent's appearance and testimony in an action pending in a United States District Court may be served, and may require testimony, beyond the territorial limits imposed by the Federal Rules of Civil Procedure.

22. Respondent shall provide to the Commission, within thirty days after the end of the suspension period described in Section IV(B) below, an affidavit that he has complied fully with the sanctions set forth in that section.

In determining whether to accept the Offer, the Commission has considered these undertakings.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions specified in Respondent Gustafson's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 203(k) of the Advisers Act, Respondent Gustafson shall cease and desist from committing or causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act.

B. Pursuant to Section 203(f) of the Advisers Act and Section 9(b) of the Investment Company Act, Respondent Gustafson shall be, and hereby is, suspended for a period of twelve months from the date of the Order from association with any investment adviser; and is prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter for a period of twelve months, effective on the date of entry of this order.

C. It is further ordered that Respondent Gustafson shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of $100,000 to the United States Treasury. Such payment shall be: (1) made by United States postal money order, certified check, bank cashier's check or bank money order; (2) made payable to the Securities and Exchange Commission; (3) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (4) submitted under cover letter that identifies Gustafson as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to David Bergers, Associate District Administrator, Boston District Office, Securities and Exchange Commission, 73 Tremont Street, Boston, MA 02108.

By the Commission.

Jonathan G. Katz
Secretary