

LIBERTY ALL STAR EQUITY FUND
Form N-CSRS
September 03, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-04809

Liberty All-Star Equity Fund
(Exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado
(Address of principal executive offices)

80203
(Zip code)

Tane T. Tyler

Liberty All-Star Equity Fund

1290 Broadway, Suite 1100

Denver, Colorado 80203
(Name and address of agent for service)

Registrant's telephone number, including area code: 303-623-2577

Date of fiscal year end: December 31

Date of reporting period: January 1 - June 30, 2009

Item 1. Report of Shareholders

LIBERTY ALL-STAR® EQUITY FUND

Periods Ending June 30, 2009 (Unaudited)

Fund Statistics

| | | |
|-----------------------|----|-------|
| Net Asset Value (NAV) | \$ | 4.36 |
| Market Price | \$ | 3.46 |
| Discount | | 20.6% |

| | Quarter | Year-to-Date |
|----------------------------|------------------|------------------|
| Distributions | \$0.06 | \$0.16 |
| Market Price Trading Range | \$2.86 to \$3.69 | \$2.29 to \$3.73 |
| Discount Range | 18.1% to 23.8% | 16.1% to 26.5% |

Performance

| | | |
|---|--------|-------|
| Shares Valued at NAV | 19.12% | 8.04% |
| Shares Valued at NAV with Dividends Reinvested | 19.47% | 9.32% |
| Shares Valued at Market Price with Dividends Reinvested | 20.46% | 4.35% |
| S&P 500 Index | 15.93% | 3.16% |
| Lipper Large-Cap Core Mutual Fund Average* | 16.30% | 4.83% |
| NAV Reinvested Percentile Rank (1 = best; 100 = worst) | 15th | 16th |
| Number of Funds in Category | 993 | 978 |

* Percentile ranks calculated using the Fund's NAV Reinvested results within the Lipper Large-Cap Core Open-end Mutual Fund Universe.

Figures shown for the Fund and the Lipper Large-Cap Core Mutual Fund Average are total returns, which include dividends, after deducting fund expenses. Figures for the unmanaged S&P 500 Index are total returns, including dividends. A description of the Lipper benchmark and the S&P 500 Index can be found on page 36.

Past performance cannot predict future results. Performance will fluctuate with market conditions. Current performance may be lower or higher than the performance data shown. Performance information does not reflect the deduction of taxes that shareholders would pay on Fund distributions or the sale of Fund shares. An investment in the Fund involves risk, including loss of principal.

The Fund is a closed-end fund and does not continuously offer shares. The Fund trades in the secondary market, investors wishing to buy or sell shares need to place orders through an intermediary or broker. The share price of a closed-end fund is based on the market's value. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below or above net asset value.

LIBERTY ALL-STAR® EQUITY FUND
PRESIDENT'S LETTER
July 2009

Fellow Shareholders:

Building on positive momentum that developed during the latter part of the first quarter, the stock market posted excellent returns in the second quarter, exemplified by the S&P 500 index, which turned in its best quarter in more than a decade. Nevertheless, the specter of rising unemployment, weak business investment, higher energy prices and continued weakness in housing hung over the stock market. After the strong run-up, momentum faded late in the quarter on expectations that further market gains would require clearer insights into the future direction of the economy and corporate profits. On balance, however, the strong gains reversed the markets' downward trend and brought a welcome sense of relief to investors that a 1930's like scenario was less likely.

Real GDP for the first quarter of 2009 declined at an annualized rate of 6.4 percent. On the heels of the 5.4 percent annualized contraction during the fourth quarter of 2008, the six months ending March 31, 2009 represented the worst half-year of GDP growth since 1958. The state of labor markets remained weak, as the Commerce Department reported that non-farm payrolls declined another 467,000 in June and the unemployment rate increased to 9.5 percent. Job losses were widespread across most industry groups, with large declines in manufacturing, professional and business services, and construction.

In other indicators of economic weakness, retail sales in May came in 9.6 percent below May 2008. After a yearlong free fall in the American auto industry, the decline of sales slowed in June, offering some hope to automakers that the bottom had been reached. Sales were down 28 percent in June compared to the year-earlier month. Industrial production tumbled a larger-than-expected 1.1 percent in May as the recession crimped demand for a wide range of manufactured goods. It was also the seventh straight month of decline. Crude oil prices, which fell to the range of \$45 per barrel earlier in the year, rallied into the range of \$70 on signs of higher emerging market demand, particularly in China.

Fully participating in the rally, Liberty All-Star Equity Fund for the quarter returned 19.12 percent with shares valued at net asset value (NAV); 19.47 percent with shares valued at NAV with dividends reinvested; and 20.46 percent with shares valued at market price with dividends reinvested. By all three measures of return, the Fund outperformed the Lipper Large-Cap Core Mutual Fund Average, the Fund's primary benchmark, and the S&P 500 for the quarter. The strong quarter also moved the Fund comfortably into positive territory through the first half of the year. In addition, the Fund's NAV reinvested return ranked in the 15th percentile of the Lipper universe for the second quarter and in the 16th percentile for the first half.

I call your attention to two manager interviews in this quarter's report: Arnie Schneider of Schneider Capital Management, who responds to our questions from a value style perspective, and David Scott of Chase Investment Counsel, whose comments reflect the growth style of investing.

In sum, while we are encouraged by the second quarter's results, we remain realistic in terms of expectations going forward, especially over the near term. Patience and diligence are the watchwords as we move into the second half. After such a sharp decline, economic recovery will take time. Building a solid base, including correcting excesses of the past, should prove to be a more enduring solution and more rewarding for investors.

Sincerely,

William R. Parmentier, Jr.
President
Liberty All-Star Equity Fund

The views expressed in the President's letter and the Manager Interviews reflect the views of the President and Managers as of July 2009 and may not reflect their views on the date this report is first published or anytime thereafter. These views are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict so actual outcomes and results may differ significantly from the views expressed. These views are subject to change at any time based upon economic, market or other conditions and the Fund disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for the Fund are based on numerous factors, may not be relied on as an indication of trading intent.

SECOND QUARTER REPORT JUNE 30, 2009

LIBERTY ALL-STAR® EQUITY FUND

TABLE OF DISTRIBUTIONS & RIGHTS OFFERINGS

| YEAR | PER SHARE DISTRIBUTIONS | MONTH COMPLETED | RIGHTS OFFERINGS SHARES NEEDED TO PURCHASE ONE ADDITIONAL SHARE | SUBSCRIPTION PRICE | TAX CREDITS* |
|-------------|----------------------------|--------------------|---|-----------------------|-----------------|
| 1988 | \$ 0.64 | | | | |
| 1989 | 0.95 | | | | |
| 1990 | 0.90 | | | | |
| 1991 | 1.02 | | | | |
| 1992 | 1.07 | April | 10 | \$ 10.05 | |
| 1993 | 1.07 | October | 15 | 10.41 | \$ 0.18 |
| 1994 | 1.00 | September | 15 | 9.14 | |
| 1995 | 1.04 | | | | |
| 1996 | 1.18 | | | | 0.13 |
| 1997 | 1.33 | | | | 0.36 |
| 1998 | 1.40 | April | 20 | 12.83 | |
| 1999 | 1.39 | | | | |
| 2000 | 1.42 | | | | |
| 2001 | 1.20 | | | | |
| 2002 | 0.88 | May | 10 | 8.99 | |
| 2003 | 0.78 | | | | |
| 2004 | 0.89 | July | 10** | 8.34 | |
| 2005 | 0.87 | | | | |
| 2006 | 0.88 | | | | |
| 2007 | 0.90 | December | 10 | 6.51 | |
| 2008 | 0.65 | | | | |
| 2009 | | | | | |
| 1st Quarter | 0.10 | | | | |
| 2nd Quarter | 0.06 | | | | |

* The Fund's net investment income and net realized capital gains exceeded the amount to be distributed under the Fund's 10 percent distribution policy. In each case, the Fund elected to pay taxes on the undistributed income and passed through a proportionate tax credit to shareholders.

** The number of shares offered was increased by an additional 25% to cover a portion of the over-subscription requests.

DISTRIBUTION POLICY - Liberty All-Star Equity Fund's current policy is to pay distributions on its shares totaling approximately 6 percent of its net asset value per year, payable in four quarterly installments of 1.5 percent of the Fund's net asset value at the close of the New York Stock Exchange on the Friday prior to each quarterly declaration date. **The fixed distributions are not related to the amount of the Fund's net investment income or net realized capital gains or losses and may be taxed as ordinary income up to the amount of the Fund's current and accumulated earnings and profits.** If, for any calendar year, the total distributions made under the distribution policy exceed the Fund's net investment income and net realized capital gains, the excess will generally be treated as a non-taxable return of capital, reducing the shareholder's adjusted basis in his or her shares. If the Fund's net investment income and net realized capital gains for any year exceed the amount distributed under the distribution policy, the Fund may, in its discretion, retain and not distribute net realized capital gains and pay income tax thereon to the extent of such excess. The Fund retained such excess gains in 1993, 1996 and 1997.

DIVIDEND REINVESTMENT PLAN - The Fund's Automatic Dividend Reinvestment and Direct Purchase Plan has been updated and a summary of the plan begins on page 34. For further detail please visit www.all-starfunds.com.

LIBERTY ALL-STAR® EQUITY FUND**TOP 20 HOLDINGS & ECONOMIC SECTORS***as of June 30, 2009 (Unaudited)*

| TOP 20 HOLDINGS* | PERCENT OF NET ASSETS |
|------------------------------------|------------------------------|
| Dell, Inc. | 2.56% |
| QUALCOMM, Inc. | 1.99 |
| Bank of America Corp. | 1.92 |
| Cisco Systems, Inc. | 1.54 |
| Chesapeake Energy Corp. | 1.48 |
| Visa, Inc., Class A | 1.44 |
| Magna International, Inc., Class A | 1.35 |
| Annaly Capital Management, Inc. | 1.33 |
| Apple, Inc. | 1.33 |
| Corning, Inc. | 1.30 |
| The Allstate Corp. | 1.25 |
| Microsoft Corp. | 1.22 |
| Walgreen Co. | 1.17 |
| JPMorgan Chase & Co. | 1.14 |
| J.C. Penney Co., Inc. | 1.13 |
| Morgan Stanley | 1.12 |
| The Walt Disney Co. | 1.10 |
| Research In Motion Ltd. | 1.07 |
| Google, Inc., Class A | 1.06 |
| Schlumberger Ltd. | 1.05 |
| | 27.55% |

| ECONOMIC SECTORS* | PERCENT OF NET ASSETS |
|--------------------------|------------------------------|
| Information Technology | 26.80% |
| Financials | 15.39 |
| Consumer Discretionary | 14.38 |
| Energy | 12.18 |
| Health Care | 11.66 |
| Industrials | 7.03 |
| Consumer Staples | 5.69 |
| Materials | 2.65 |
| Utilities | 2.34 |
| Other Net Assets | 1.88 |
| | 100.00% |

* Because the Fund is actively managed, there can be no guarantee that the Fund will continue to hold securities of the indicated issuers and sectors in the future.

LIBERTY ALL-STAR® EQUITY FUND**MAJOR STOCK CHANGES IN THE SECOND QUARTER***(Unaudited)*

The following are the major (\$4.0 million or more) stock changes both purchases and sales that were made in the Fund's portfolio during the second quarter of 2009.

| SECURITY NAME | PURCHASES (SALES) | SHARES AS OF 6/30/09 |
|-----------------------------|--------------------------|-----------------------------|
| PURCHASES | | |
| The Allstate Corp. | 203,145 | 406,770 |
| The Coca-Cola Co. | 122,500 | 157,500 |
| McAfee, Inc. | 146,600 | 146,600 |
| QUALCOMM, Inc. | 141,000 | 350,600 |
| Research In Motion Ltd. | 69,500 | 120,000 |
| The Walt Disney Co. | 173,900 | 376,900 |
| Zimmer Holdings, Inc. | 93,325 | 93,325 |
| SALES | | |
| Apollo Group, Inc., Class A | (83,100) | 0 |
| AutoZone, Inc. | (33,950) | 0 |
| Gilead Sciences, Inc. | (126,600) | 173,100 |
| Mastercard, Inc., Class A | (25,900) | 0 |
| Symantec Corp. | (284,700) | 0 |
| SYSCO Corp. | (209,200) | 0 |

LIBERTY ALL-STAR® EQUITY FUND**INVESTMENT MANAGERS / PORTFOLIO CHARACTERISTICS**

THE FUND'S ASSETS ARE APPROXIMATELY EQUALLY DISTRIBUTED AMONG THREE VALUE MANAGERS AND TWO GROWTH MANAGERS:

MANAGERS' DIFFERING INVESTMENT STRATEGIES ARE REFLECTED IN PORTFOLIO CHARACTERISTICS

The portfolio characteristics table below is a regular feature of the Fund's shareholder reports. It serves as a useful tool for understanding the value of a multi-managed portfolio. The characteristics are different for each of the Fund's five investment managers. These differences are a reflection of the fact that each pursues a different investment style. The shaded column highlights the characteristics of the Fund as a whole, while the final column shows portfolio characteristics for the S&P 500 Index.

**PORTFOLIO CHARACTERISTICS
AS OF JUNE 30, 2009
(UNAUDITED)**

INVESTMENT STYLE SPECTRUM

| | SCHNEIDER | PZENA | MATRIX | CHASE | TCW | TOTAL FUND | S&P 500 INDEX |
|--|-----------|-------|--------|-------|-------|---------------|------------------|
| Number of Holdings | 41 | 45 | 40 | 32 | 33 | 156* | 500 |
| Percent of Holdings in Top 10 | 50% | 34% | 35% | 46% | 46% | 16% | 20% |
| Weighted Average Market Capitalization (billions) | \$ 13 | \$ 25 | \$ 41 | \$ 51 | \$ 36 | \$ 33 | \$ 71 |
| Average Five-Year Earnings Per Share Growth | 2% | 1% | 4% | 25% | 35% | 13% | 14% |
| Dividend Yield | 2.1% | 2.0% | 1.8% | 1.1% | 0.7% | 1.5% | 2.3% |

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| | | | | | | | |
|------------------------|------|------|------|------|------|------|------|
| Price/Earnings Ratio** | 14x | 12x | 13x | 16x | 20x | 15x | 13x |
| Price/Book Value Ratio | 1.5x | 1.6x | 2.5x | 3.9x | 4.7x | 2.9x | 3.1x |

* Certain holdings are held by more than one manager.

** Excludes negative earnings.

**LIBERTY ALL-STAR® EQUITY FUND
MANAGER INTERVIEWS**

**Arnold C. Schneider, III,
CFA**

*Schneider Capital
Management Corporation*

Navigating a sluggish economy, Schneider is focused on industries that respond quickly to a lack of reinvestment

Schneider Capital Management (SCM) is a value style manager practicing a disciplined fundamental approach to add value over time. A research-intensive manager, SCM focuses on uncovering new ideas in the belief that the broader market is slow to react to change, particularly where out-of-favor stocks are concerned. Owning these stocks before they experience a rebound in earnings and come to the attention of other investors creates the opportunity for price appreciation before fundamentals warrant the stock to be sold. Recently, we had the opportunity to speak with Arnie Schneider, the firm's founder, President and Chief Investment Officer. The Fund's Investment Advisor, ALPS Advisors, Inc., moderated the interviews.

What factors have impacted the performance of Schneider's portion of Liberty All-Star Equity Fund's portfolio so far this year?

I'll identify two primary factors. The first and probably most important is the reversal of the headwinds that existed in 2007 and 2008 for deep value investing, particularly the absolute explosion in credit spreads. In the first half of 2009, we have had a partial reversal as investors seemed to take some of the worst-case scenarios for the U.S. economy off the table and became a little more comfortable with the belief that the economy will eventually turn.

Second, we have a significant overweight to technology, an area that has been particularly strong this year. We initiated a number of new positions and expanded others after the economy imploded last September due to the Lehman Brothers collapse. That decision has proved highly beneficial in the first half of 2009.

We have a significant overweight to technology, an area that has been particularly strong this year.

A significant overweight in technology for a deep value investor may say a lot about action in the stock market over the past year.

We have always invested in technology and, in fact, we were overweight versus our value indices even before September 2008. But, yes, we have significantly expanded our overweight since that time. It is compatible with our style to invest opportunistically in technology, and there were times in the late 1990s and again earlier this decade when we were overweight in some of the more cyclical areas, which are where we tend to focus. We typically stay away from the very high tech space, which tends to carry a higher valuation.

It would seem that your focus on deep value investing would uncover a great many opportunities after the sharp sell-off in equity markets. But the other half of the

story is a rebound in earnings. You must have found plenty of cheap stocks, but what about good stories?

There are two thoughts to share on this point. Obviously, values in the marketplace are attractive even extraordinary for a value style investor. What is less compelling is the opportunity for near- to mid-term earnings growth in some of the deepest cyclical areas of the market. You can see that in the capacity utilization rate in the U.S. It is currently 68 percent versus the long-term average around 80 percent, which places it at an all-time low. So, we have a long way to go in a number of industries to get back to what would be considered normal levels. Earnings may have bottomed in 2009, but the opportunity for outsized earnings gains in some of these industries that are so deeply in the hole may take a few years to materialize. In response, what we are doing is to identify those industries and companies that are cheap and where we expect earnings to begin a meaningful progression in the near term.

Can you give us examples of industries that illustrate your thinking?

With the demand and the supply sides of the equation so far apart in a number of industries, we've focused our research efforts on those industries where the supply curve reacts relatively quickly to a lack of reinvestment. In other words, we have been searching diligently for industries that have shorter investment cycles. There are two areas that have jumped out at us in this regard. One is the U.S. natural gas industry, which has a natural depletion rate of about 30 percent per year, meaning that the industry literally needs to reinvent itself every three and one-third years. U.S. gas drilling activity is experiencing a 55 percent pull-back. The second industry that reflects the same condition is technology, specifically semiconductors, where the typical fabricating plant has a useful life of about five years. Once again, effective supply in this industry can decline fairly rapidly in the absence of capital spending.

...we are (identifying) those industries and companies that are cheap and where we expect earnings to begin a meaningful progression in the near term.

Can you share an example of companies in the portion of the Liberty All-Star Equity Fund that you manage that represent each of those industries?

In natural gas, our largest holding is Chesapeake Energy, a very inexpensive stock based on asset value and cash flow. We believe the company also offers attractive upside because of its visionary CEO, Aubrey McClendon. Another factor is the company's leading position in the four largest shale gas resources in the U.S. the Marcellus, Haynesville, Fayetteville and Bar-nett shales. These shale plays offer significantly better geology, cost of production and return on capital compared with traditional natural gas plays. So, this company is positioned to do well in all natural gas pricing environments because of its low cost structure, and it should prove to be a growth exploration production company with a high return on capital.

In technology I'll mention Dell, which is in the midst of an internal turnaround. Michael Dell has returned to his role as the CEO and brought fresh talent into the executive suite. The company is also reinvigorating its direct sales

model, which is still an advantage over other methods of distribution, particularly in terms of lower working capital demands. Operating margins for Dell, formerly in double digits, fell into the low single digits, but we think there is the potential for them to move into the high single digits over the next few years. Dell's \$4 billion internal restructuring is working, but it has been masked by the global collapse in PC demand. So, we think investors are offered a double play with Dell in the internal restructuring story and an anticipated snap back in overall computer demand. The aging installed base of corporate PCs is nine months older than the longer-term average, and more than 50 percent of PCs are more than three years old. Corporate IT directors can't ignore replacing their PCs forever without suffering slower speeds, less efficiency, higher maintenance costs and other operating issues. Plus, developments like the release of Windows 7 by Microsoft incentivize CIOs to invest in new PCs.

Based on your answer to our first question, let us close by returning to credit conditions: How does your style perform under various credit conditions specifically, the very tight credit conditions we had last autumn and the improving credit environment we are seeing today?

The deep value style by its nature of investing in companies at the bottom of their earnings cycles means that portfolio companies tend to have an interest coverage ratio that is a bit lower than the market as a whole. Typically, our portfolio companies carry average debt levels. But because the earnings of our companies are typically at the bottom of their cycle the result is a lower interest coverage ratio and a higher ratio of debt to cash flow or earnings. In our portfolios we have this sensitivity to credit spreads, both directly and indirectly. Thus, when credit spreads widen, as they did in 2007 and 2008, it's a headwind for us. They actually became a massive headwind in latter 2008 when credit spreads blew out to two times the all-time previous high. More recently, we have had a moderate tail-wind in the first half of 2009. Credit spreads have come in by about one-third from their highs, but are still extraordinarily wide. Continued narrowing should give our portfolio a real boost.

...we've focused our research efforts on those industries where the supply curve reacts relatively quickly to a lack of reinvestment... (e.g.) industries that have shorter investment cycles.

Arnie, thank you for a very insightful interview.

David B. Scott, CFA, CIC

*Chase Investment
Counsel Corporation*

Chase shifts from defensive to a focus on quality growth stocks positioned for a mixed economy

Chase Investment Counsel Corp. is one of Liberty All-Star Equity Fund's two growth managers. Located in Charlottesville, Virginia, Chase approaches the growth style with a valuation orientation to its investment process in that it seeks to invest in quality growth stocks selling at reasonable prices. The firm's investment process is characterized by a disciplined combination of fundamental, technical and quantitative research. We recently had the chance to speak with David Scott, CFA, CIC, Chase's President and Chief Investment Officer.

Although 2008 was difficult for just about all investment managers, Chase performed well on a relative basis. In 2009, however, the firm's returns lag the large-cap Russell 1000 Growth Index through the first half. What worked last year that hasn't been as productive this year?

For stock selection at Chase we rely on our investment process. It's the focal point of everything we do, and it worked well last year. It kept us in the right areas—the more stable, defensive sectors, if you will—and away from the financial and industrial sectors, which were devastated by the financial crisis and subsequent economic difficulties. This year, when the market turned beginning in March, the main driver behind that turn was what we refer to as a mean reversion. This simply means that the stocks that performed the poorest in the previous 12 months were the initial leaders in this spring's rally.

...the portfolio today is less dependent on a weak market for its relative return and more dependent on good individual stock selection.

May 8 was an important date in our work because it marks the conclusion of the initial mean reversion rally that started with the market's close on March 9. During this period, March 9 to May 8, the market rebound was led by lower quality, more cyclical stocks. At Chase, we focus on stable growth and higher quality stocks. This kind of a reversion is a headwind for us. Just to put it into perspective, in late 2002 when the market turned after declining sharply in 2000, 2001 and most of 2002, mean reversion explained about a quarter of the market's gains. According to some calculations in which we have confidence, in the initial rally in 2009 the mean reversion effect was twice as powerful. So, essentially, we had a huge headwind in the first couple of months of this rally.

Were you able to offset any of those factors?

Yes, but our process is not designed to fully participate when the market bounces off the bottom. Once the trend is better established

and true leadership emerges, we do much better. Comparing the current rally to 2002-2003 we're actually off to a better start. Since May 8 our overall performance has been better not as good as we'd like, but we see the trend improving.

Currently, how have you positioned the portion of the Liberty All-Star Equity Fund portfolio that you manage?

Coming into 2009, we were in what one would consider to be a defensive posture with emphasis on health care and consumer staples and a relatively low emphasis on consumer discretionary and technology in the more economically sensitive areas. If we look at the portfolio today, the overweightings are in technology, consumer discretionary, energy and materials, and the underweightings are in health care and consumer staples. We also remain underweighted in industrials and financials. So, I don't want to say that we have shifted to a more economically sensitive portfolio that would benefit from a better economy, but I would say that the portfolio today is less dependent on a weak market for its relative return and more dependent on good individual stock selection. It's a portfolio that should do well in a neutral market environment, that is, it is well positioned if the market continues to gain from here but it should also do well if the market stays in a neutral trading range.

Chase focuses on companies with the capacity to generate growth, but that are reasonably priced. After the market sell-off, many stocks would appear to be reasonably priced...but what about future growth?

Are you finding companies that can grow through a slow global economy...or do you feel the economy can recover more quickly than anticipated?

As a group, the stocks in the portfolio should be able to grow under most economic scenarios. But it would be unrealistic not to recognize the fact that we are probably going to be confronted by a slower global growth scenario given the major issues confronting financial institutions, the deleveraging consumer and economies throughout the world. The challenge is finding those companies that have the ability to grow through these difficulties, and we feel we can make that case for those companies in the portion of the Liberty All-Star Equity Fund portfolio that we manage.

...it would be unrealistic not to recognize the fact that we're probably going to be confronted by a slower global growth scenario...

Maybe the best way to make the point is some examples. What are two stocks in the portfolio whose prospects you find appealing?

I'll start with a large and well known name in the technology sector, Oracle Corp. This company has continued to report better-than-expected earnings throughout this very difficult environment. Oracle has built itself into a software juggernaut, if you will, by establishing its own enterprise and middleware software, and then over the years acquiring a number of different companies such as PeopleSoft and BEA Systems to create

today's software industry leader. Recently, it made another acquisition Sun Microsystems. While Oracle has successfully integrated its acquisitions and continued to move forward and report very good earnings, it trades at a reasonable price and looks strong from fundamental and technical perspectives. From its current price of around \$20 a share we believe it can trade into the high \$20s within 12 months, and on a relative basis we believe that would be a good return, especially because Oracle is a comparatively low risk stock.

Tell us about the other portfolio holding, please.

The second is probably less well known TJX Companies. TJX, in the consumer discretionary sector, is a leading off-price retailer of apparel and home fashions in the U.S. and worldwide. The company is much better known for its operating divisions, such as T.J. Maxx, Marshalls, HomeGoods and A.J. Wright in the U.S. In Canada, the company operates HomeSense and Winners, and in Europe it operates T.K. Maxx and HomeSense stores. The company has a huge number of outlets over 800 T.J. Maxx and Marshalls stores in the U.S. and 135 A.J. Wright locations. In Canada, there are more than 70 HomeSense stores and over 200 Winners.

TJX does a very good job of offering off-price clothing, furniture, housewares, jewelry and other consumer products in the North American and European markets by acquiring inventory from other retailers and making it available at very reasonable prices. Of course, in today's environment consumers are looking to spend fewer dollars or, at the least, be very careful about the dollars they do spend. TJX has been able to appeal to these consumers, and they continue to grow as a result. As a measure of that success, TJX has been able to report among the best same-store sales of all retailers while taking share from other retailers. We believe the consumer's newfound frugality is not just an aberration, but more of a secular change. The stock has done well but still trades at a reasonable price of around \$30 a share. We think in a year it can reach the 40s, and on a relative basis that should make it a very nice performer.

David, thank you for an interesting interview.

LIBERTY ALL-STAR® EQUITY FUND

SCHEDULE OF INVESTMENTS

as of June 30, 2009 (Unaudited)

| | SHARES | MARKET VALUE |
|--|---------|--------------|
| COMMON STOCKS (98.12%) | | |
| CONSUMER DISCRETIONARY (14.38%) | | |
| Auto Components (1.96%) | | |
| Johnson Controls, Inc. | 222,000 | \$ 4,821,840 |
| Magna International, Inc., Class A | 254,715 | 10,759,162 |
| | | 15,581,002 |
| Hotels, Restaurants & Leisure (2.74%) | | |
| Carnival Corp. | 229,955 | 5,925,940 |
| McDonald's Corp. | 86,300 | 4,961,387 |
| Starbucks Corp.(a) | 402,300 | 5,587,947 |
| Yum! Brands, Inc. | 161,400 | 5,381,076 |
| | | 21,856,350 |
| Household Durables (1.61%) | | |
| Centex Corp. | 443,600 | 3,752,856 |
| NVR, Inc.(a) | 12,125 | 6,091,479 |
| Whirlpool Corp. | 69,450 | 2,955,792 |
| | | 12,800,127 |
| Internet & Catalog Retail (0.97%) | | |
| Amazon.com, Inc.(a) | 91,980 | 7,695,047 |
| Leisure Equipment & Products (0.31%) | | |
| Mattel, Inc. | 153,875 | 2,469,694 |
| Media (3.45%) | | |
| Comcast Corp., Class A | 166,000 | 2,340,600 |
| The DIRECTV Group, Inc.(a) | 85,400 | 2,110,234 |
| Liberty Media Corp., Capital Group, Series A(a) | 96,179 | 1,304,187 |
| The McGraw-Hill Cos., Inc. | 217,000 | 6,533,870 |
| Omnicom Group, Inc. | 202,925 | 6,408,372 |
| The Walt Disney Co. | 376,900 | 8,793,076 |
| | | 27,490,339 |
| Multi-Line Retail (1.12%) | | |
| J.C. Penney Co., Inc. | 312,115 | 8,960,822 |
| Specialty Retail (2.22%) | | |
| Best Buy Co., Inc. | 132,515 | 4,437,927 |
| Home Depot, Inc. | 76,600 | 1,810,058 |
| Staples, Inc. | 289,000 | 5,829,130 |
| The TJX Companies, Inc. | 177,300 | 5,577,858 |
| | | 17,654,973 |
| CONSUMER STAPLES (5.69%) | | |
| Beverages (0.95%) | | |
| The Coca-Cola Co. | 157,500 | 7,558,425 |

See Notes to Schedule of Investments and Financial Statements

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| | SHARES | MARKET VALUE |
|--|---------|--------------|
| COMMON STOCKS (continued) | | |
| Food & Staples Retailing (1.98%) | | |
| Costco Wholesale Corp. | 85,400 | \$ 3,902,780 |
| Walgreen Co. | 316,700 | 9,310,980 |
| Wal-Mart Stores, Inc. | 52,700 | 2,552,788 |
| | | 15,766,548 |
| Food Products (1.45%) | | |
| Kraft Foods, Inc. | 152,200 | 3,856,748 |
| Sara Lee Corp. | 250,271 | 2,442,645 |
| Tyson Foods, Inc., Class A | 418,725 | 5,280,122 |
| | | 11,579,515 |
| Household Products (0.90%) | | |
| The Procter & Gamble Co. | 139,600 | 7,133,560 |
| Personal Products (0.41%) | | |
| Avon Products, Inc. | 127,000 | 3,274,060 |
| ENERGY (12.18%) | | |
| Energy Equipment & Services (3.22%) | | |
| BJ Services Co. | 213,150 | 2,905,235 |
| FMC Technologies, Inc.(a) | 69,110 | 2,597,154 |
| National-Oilwell Varco, Inc.(a) | 78,900 | 2,576,874 |
| Oceaneering International, Inc.(a) | 127,600 | 5,767,520 |
| Schlumberger Ltd. | 154,830 | 8,377,851 |
| Weatherford International Ltd.(a) | 173,100 | 3,385,836 |
| | | 25,610,470 |
| Oil, Gas & Consumable Fuels (8.96%) | | |
| Apache Corp. | 51,100 | 3,686,865 |
| Arch Coal, Inc. | 525,305 | 8,073,938 |
| BP PLC(b) | 82,629 | 3,939,751 |
| Chesapeake Energy Corp. | 593,619 | 11,771,464 |
| Chevron Corp. | 76,000 | 5,035,000 |
| ConocoPhillips | 129,000 | 5,425,740 |
| Consol Energy, Inc. | 132,840 | 4,511,246 |
| Devon Energy Corp. | 108,000 | 5,886,000 |
| Forest Oil Corp.(a) | 421,735 | 6,292,286 |
| Occidental Petroleum Corp. | 60,100 | 3,955,181 |
| Petroleo Brasileiro S.A.(b) | 174,700 | 7,159,206 |
| Valero Energy Corp. | 334,475 | 5,649,283 |
| | | 71,385,960 |

See Notes to Schedule of Investments and Financial Statements

| | SHARES | MARKET VALUE |
|---|-----------|--------------|
| COMMON STOCKS (continued) | | |
| FINANCIALS (15.39%) | | |
| Capital Markets (2.38%) | | |
| Bank of New York Mellon Corp. | 160,000 | \$ 4,689,600 |
| Morgan Stanley | 313,175 | 8,928,619 |
| State Street Corp. | 36,250 | 1,711,000 |
| UBS AG(a) | 299,075 | 3,651,706 |
| | | 18,980,925 |
| Commercial Banks (0.74%) | | |
| Comerica, Inc. | 147,500 | 3,119,625 |
| PNC Financial Services Group, Inc. | 70,616 | 2,740,607 |
| | | 5,860,232 |
| Consumer Finance (2.85%) | | |
| American Express Co. | 127,000 | 2,951,480 |
| Capital One Financial Corp. | 376,105 | 8,229,177 |
| Visa, Inc., Class A | 184,600 | 11,493,196 |
| | | 22,673,853 |
| Diversified Financial Services (3.80%) | | |
| Bank of America Corp. | 1,160,319 | 15,316,211 |
| Citigroup, Inc. | 124,822 | 370,721 |
| IntercontinentalExchange, Inc.(a) | 47,900 | 5,472,096 |
| JPMorgan Chase & Co. | 266,655 | 9,095,602 |
| | | 30,254,630 |
| Insurance (3.97%) | | |
| ACE Ltd. | 56,400 | 2,494,572 |
| Aflac, Inc. | 32,790 | 1,019,441 |
| The Allstate Corp. | 406,770 | 9,925,188 |
| Brown & Brown, Inc. | 177,100 | 3,529,603 |
| Fidelity National Financial, Inc. | 144,745 | 1,958,400 |
| Genworth Financial, Inc., Class A | 402,475 | 2,813,300 |
| The Hartford Financial Services Group, Inc. | 58,810 | 698,075 |
| MetLife, Inc. | 78,975 | 2,370,040 |
| RenaissanceRe Holdings Ltd. | 42,375 | 1,972,133 |
| Torchmark Corp. | 130,325 | 4,827,238 |
| | | 31,607,990 |
| Real Estate Investment Trusts (1.65%) | | |
| Annaly Capital Management, Inc. | 700,649 | 10,607,826 |
| Redwood Trust, Inc. | 173,145 | 2,555,620 |
| | | 13,163,446 |

See Notes to Schedule of Investments and Financial Statements

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| | SHARES | MARKET VALUE |
|---|---------|--------------|
| COMMON STOCKS (continued) | | |
| HEALTH CARE (11.66%) | | |
| Biotechnology (2.54%) | | |
| Cephalon, Inc.(a) | 71,900 | \$ 4,073,135 |
| Genzyme Corp.(a) | 144,900 | 8,066,583 |
| Gilead Sciences, Inc.(a) | 173,100 | 8,108,004 |
| | | 20,247,722 |
| Health Care Equipment & Supplies (2.66%) | | |
| Boston Scientific Corp.(a) | 172,450 | 1,748,643 |
| Covidien Ltd. | 90,000 | 3,369,600 |
| Intuitive Surgical, Inc.(a) | 23,600 | 3,862,376 |
| Medtronic, Inc. | 47,000 | 1,639,830 |
| St. Jude Medical, Inc.(a) | 39,600 | 1,627,560 |
| Varian Medical Systems, Inc.(a) | 141,200 | 4,961,768 |
| Zimmer Holdings, Inc.(a) | 93,325 | 3,975,645 |
| | | 21,185,422 |
| Health Care Providers & Services (3.14%) | | |
| Aetna, Inc. | 64,275 | 1,610,089 |
| AmerisourceBergen Corp. | 181,401 | 3,218,054 |
| Brookdale Senior Living, Inc. | 260,280 | 2,535,127 |
| Cardinal Health, Inc. | 153,875 | 4,700,881 |
| Omnicare, Inc. | 98,050 | 2,525,768 |
| Quest Diagnostics, Inc. | 86,900 | 4,903,767 |
| WellPoint, Inc.(a) | 108,675 | 5,530,471 |
| | | 25,024,157 |
| Health Care Technology (0.92%) | | |
| Cerner Corp.(a) | 117,632 | 7,327,297 |
| Life Sciences Tools & Services (0.48%) | | |
| Life Technologies Corp.(a) | 92,500 | 3,859,100 |
| Pharmaceuticals (1.92%) | | |
| Allergan, Inc. | 83,800 | 3,987,204 |
| Bristol-Myers Squibb Co. | 188,442 | 3,827,257 |
| Johnson & Johnson | 48,375 | 2,747,700 |
| Teva Pharmaceutical Industries Ltd.(b) | 95,200 | 4,697,168 |
| | | 15,259,329 |
| INDUSTRIALS (7.03%) | | |
| Aerospace & Defense (2.13%) | | |
| The Boeing Co. | 165,345 | 7,027,162 |
| L-3 Communications Holdings, Inc. | 55,625 | 3,859,263 |
| Northrop Grumman Corp. | 133,450 | 6,095,996 |
| | | 16,982,421 |

See Notes to Schedule of Investments and Financial Statements

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| | SHARES | MARKET VALUE |
|---|-----------|--------------|
| COMMON STOCKS (continued) | | |
| Air Freight & Logistics (1.34%) | | |
| C.H. Robinson Worldwide, Inc. | 140,145 | \$ 7,308,561 |
| Expeditors International of Washington, Inc. | 100,290 | 3,343,669 |
| | | 10,652,230 |
| Commercial Services & Supplies (0.42%) | | |
| Quanta Services, Inc.(a) | 143,800 | 3,326,094 |
| Construction & Engineering (0.36%) | | |
| Fluor Corp. | 55,900 | 2,867,111 |
| Electrical Equipment (0.13%) | | |
| Rockwell Automation, Inc. | 31,745 | 1,019,649 |
| Industrial Conglomerates (0.67%) | | |
| Tyco International Ltd. | 206,500 | 5,364,870 |
| Machinery (1.31%) | | |
| Deere & Co. | 26,600 | 1,062,670 |
| Flowserve Corp. | 47,016 | 3,282,187 |
| Navistar International Corp.(a) | 66,578 | 2,902,801 |
| PACCAR, Inc. | 98,945 | 3,216,702 |
| | | 10,464,360 |
| Professional Services (0.67%) | | |
| Monster Worldwide, Inc.(a) | 448,100 | 5,292,061 |
| INFORMATION TECHNOLOGY (26.80%) | | |
| Communications Equipment (7.25%) | | |
| Alcatel-Lucent(a)(b) | 1,850,608 | 4,589,508 |
| Cisco Systems, Inc.(a) | 657,000 | 12,246,480 |
| Corning, Inc. | 645,500 | 10,366,730 |
| Motorola, Inc. | 929,380 | 6,161,789 |
| QUALCOMM, Inc. | 350,600 | 15,847,120 |
| Research In Motion Ltd.(a) | 120,000 | 8,526,000 |
| | | 57,737,627 |
| Computers & Peripherals (5.32%) | | |
| Apple, Inc.(a) | 74,300 | 10,582,549 |
| Dell, Inc.(a) | 1,486,050 | 20,403,467 |
| EMC Corp.(a) | 258,300 | 3,383,730 |
| International Business Machines Corp. | 76,900 | 8,029,898 |
| | | 42,399,644 |
| Electronic Equipment & Instruments (1.49%) | | |
| Avnet, Inc.(a) | 259,435 | 5,455,918 |
| Tyco Electronics Ltd. | 345,125 | 6,415,874 |
| | | 11,871,792 |

See Notes to Schedule of Investments and Financial Statements

| | SHARES | MARKET VALUE |
|---|---------|--------------|
| COMMON STOCKS (continued) | | |
| Internet Software & Services (2.59%) | | |
| Akamai Technologies, Inc.(a) | 209,295 | \$ 4,014,278 |
| eBay, Inc.(a) | 246,000 | 4,213,980 |
| Google, Inc., Class A(a) | 20,000 | 8,431,800 |
| Yahoo!, Inc.(a) | 255,500 | 4,001,130 |
| | | 20,661,188 |
| IT Services (1.43%) | | |
| Automatic Data Processing, Inc. | 48,600 | 1,722,384 |
| Cognizant Technology Solutions Corp.(a) | 154,300 | 4,119,810 |
| The Western Union Co. | 336,000 | 5,510,400 |
| | | 11,352,594 |
| Semiconductors & Semiconductor Equipment (4.32%) | | |
| Analog Devices, Inc. | 221,000 | 5,476,380 |
| ASML Holding N.V. | 279,995 | 6,061,892 |
| Intel Corp. | 290,000 | 4,799,500 |
| International Rectifier Corp.(a) | 409,698 | 6,067,627 |
| Lam Research Corp.(a) | 196,850 | 5,118,100 |
| Marvell Technology Group Ltd.(a) | 111,100 | 1,293,204 |
| Novellus Systems, Inc.(a) | 335,200 | 5,597,840 |
| | | 34,414,543 |
| Software (4.40%) | | |
| BMC Software, Inc.(a) | 103,600 | 3,500,644 |
| CA, Inc. | 256,750 | 4,475,153 |
| Intuit, Inc.(a) | 87,100 | 2,452,736 |
| McAfee, Inc.(a) | 146,600 | 6,185,054 |
| Microsoft Corp. | 408,025 | 9,698,754 |
| Oracle Corp. | 273,800 | 5,864,796 |
| Salesforce.com, Inc.(a) | 76,000 | 2,900,920 |
| | | 35,078,057 |
| MATERIALS (2.65%) | | |
| Chemicals (1.57%) | | |
| Cytec Industries, Inc. | 26,200 | 487,844 |
| Monsanto Co. | 100,300 | 7,456,302 |
| Praxair, Inc. | 64,000 | 4,548,480 |
| | | 12,492,626 |
| Metals & Mining (1.08%) | | |
| Alcoa, Inc. | 390,000 | 4,028,700 |
| Barrick Gold Corp. | 136,100 | 4,566,155 |
| | | 8,594,855 |

See Notes to Schedule of Investments and Financial Statements

| | SHARES | MARKET VALUE |
|---|------------------|-----------------------|
| COMMON STOCKS (continued) | | |
| UTILITIES (2.34%) | | |
| Electric Utilities (0.55%) | | |
| Allegheny Energy, Inc. | 171,815 | \$ 4,407,055 |
| Gas Utilities (0.10%) | | |
| EQT Corp. | 21,680 | 756,849 |
| Independent Power Producers & Energy Traders (1.03%) | | |
| RRI Energy, Inc.(a) | 1,627,490 | 8,153,725 |
| Multi-Utilities (0.66%) | | |
| Sempra Energy | 81,250 | 4,032,437 |
| Wisconsin Energy Corp., Series C | 30,728 | 1,250,937 |
| | | 5,283,374 |
| TOTAL COMMON STOCKS (COST OF \$964,637,466) | | 781,433,720 |
| PREFERRED STOCKS (0.39%) | | |
| CONSUMER DISCRETIONARY (0.08%) | | |
| Automobiles (0.08%) | | |
| General Motors Corp., Series C, 6.250% | 251,575 | 676,108 |
| FINANCIALS (0.31%) | | |
| Diversified Financial Services (0.31%) | | |
| Citigroup, Inc., Series AA, 8.125% | 130,410 | 2,436,059 |
| TOTAL PREFERRED STOCKS (COST OF \$6,601,247) | | 3,112,167 |
| | PAR VALUE | |
| SHORT TERM INVESTMENT (1.56%) | | |
| REPURCHASE AGREEMENT (1.56%) | | |
| Repurchase agreement with State Street Bank & Trust Co., dated 06/30/09, due 07/01/09 at 0.01%, collateralized by several Fannie Mae and Freddie Mac instruments with various maturity dates, market value of \$12,646,065 (Repurchase proceeds of \$12,388,003) (COST OF \$12,388,000) | \$ 12,388,000 | 12,388,000 |
| TOTAL INVESTMENTS (100.07%) (COST OF 983,626,713)(c) | | 796,933,887 |
| LIABILITIES IN EXCESS OF OTHER ASSETS (-0.07%) | | (520,431) |
| NET ASSETS (100.00%) | | \$ 796,413,456 |
| NET ASSET VALUE PER SHARE (182,678,079 SHARES OUTSTANDING) | | \$ 4.36 |

See Notes to Schedule of Investments and Financial Statements

Notes to Schedule of Investments:

- (a) Non-income producing security.
- (b) American Depositary Receipt.
- (c) Cost of investments for federal income tax purposes is \$993,359,126.

Gross unrealized appreciation and depreciation at June 30, 2009, based on cost of investments for federal income tax purposes is as follows:

| | | |
|-------------------------------|----|---------------|
| Gross unrealized appreciation | \$ | 46,823,691 |
| Gross unrealized depreciation | | (243,248,930) |
| Net unrealized depreciation | \$ | (196,425,239) |

See Notes to Financial Statements

LIBERTY ALL-STAR® EQUITY FUND**STATEMENT OF ASSETS AND LIABILITIES***June 30, 2009 (Unaudited)*

| | | |
|---|-----------|--------------------|
| ASSETS: | | |
| Investments at market value (cost \$983,626,713) | \$ | 796,933,887 |
| Cash | | 3,317 |
| Receivable for investments sold | | 5,840,339 |
| Dividends and interest receivable | | 1,080,912 |
| Prepaid and other assets | | 114,362 |
| TOTAL ASSETS | | 803,972,817 |
| LIABILITIES: | | |
| Payable for investments purchased | | 6,777,923 |
| Investment advisory fees payable | | 503,067 |
| Payable for administration, pricing and bookkeeping fees | | 139,519 |
| Accrued expenses | | 138,852 |
| TOTAL LIABILITIES | | 7,559,361 |
| NET ASSETS | \$ | 796,413,456 |
| NET ASSETS REPRESENTED BY: | | |
| Paid-in capital (unlimited number of shares of beneficial interest without par value authorized; 182,678,079 shares outstanding) | \$ | 1,284,748,821 |
| Overdistributed net investment income | | (26,296,541) |
| Accumulated net realized loss on investments | | (275,345,998) |
| Net unrealized depreciation on investments | | (186,692,826) |
| TOTAL NET ASSETS APPLICABLE TO OUTSTANDING SHARES OF BENEFICIAL INTEREST (\$4.36 PER SHARE) | \$ | 796,413,456 |

See Notes to Financial Statements

LIBERTY ALL-STAR® EQUITY FUND

STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2009 (Unaudited)

INVESTMENT INCOME:

| | | |
|-----------|----|-----------|
| Dividends | \$ | 6,359,391 |
| Interest | | 779 |

TOTAL INVESTMENT INCOME (NET OF FOREIGN TAXES WITHHELD AT SOURCE WHICH AMOUNTED TO \$31,150)

6,360,170

EXPENSES:

| | | |
|------------------------------|----|-----------|
| Investment advisory fee | \$ | 2,745,896 |
| Administrative fee | | 686,474 |
| Pricing and bookkeeping fees | | 89,378 |
| Audit fee | | 21,639 |
| Custodian fee | | 43,964 |
| Insurance expense | | 34,326 |
| Legal fees | | 68,933 |