LIBERTY ALL STAR EQUITY FUND
Form N-CSR
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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

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

1625 Broadway, Suite 2200, Denver, Colorado	80202
(Address of principal executive offices)	(Zip code)

Tane T. Tyler, Secretary
Liberty All-Star Equity Fund
1625 Broadway, Suite 2200
Denver, Colorado 80202
(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: December 31, 2006

Item 1. Report of Shareholders

LIBERTY ALL-STAR® EQUITY FUND

2006 ANNUAL REPORT

A SINGLE INVESTMENT...

A DIVERSIFIED CORE PORTFOLIO

A single fund that offers:

- A diversified, multi-managed portfolio of growth and value stocks
- Exposure to many of the industries that make the U.S. economy the world s dynamic
- Access to institutional quality investment managers
- Objective and ongoing manager evaluation
- Active portfolio rebalancing
- A quarterly fixed distribution policy
- The power of more than $1.3 billion in assets
- Actively managed, exchange traded fund listed on the New York Stock Exchange (ticker symbol: USA)

LIBERTY ALL-STAR EQUITY FUND

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The views expressed in the President s Letter, Editorial Feature and Manager Roundtable reflect the current views of the respective parties. 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 respective parties disclaim 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 interest. References to specific company securities should not be construed as a recommendation or investment advice.

LIBERTY ALL-STAR® EQUITY FUND
PRESIDENT S LETTER

Fellow Shareholders: *February 2007*

By just about all accounts, 2006 was a rewarding year for equity investors. It might be more accurate, however, to say that it was an especially rewarding *second half* for equity investors. You may recall that one of the most widely recognized measures of the U.S. stock market, the S&P 500 Index, was ahead just 2.7 percent through June 30 of last year, and it looked as though it was on track for another mid-single-digit gain for the second consecutive year. After drifting lower through the first two weeks of July, the market found its footing and the S&P 500 Index rose sharply to finish the year up 15.8 percent.

There were several catalysts sparking the market s strong second half performance. Perhaps the leading one was the Federal Reserve s decision in September to leave short-term interest rates unchanged after 17 consecutive quarter-point increases. But other positive factors contributed as well. Energy prices, gasoline in particular, declined after a summer spike and crude oil prices ended the year just about where they started. Corporate earnings proved surprisingly resilient. Economic growth eased, but not too dramatically. Housing experienced a significant slowdown it couldn t stay white-hot forever but did not collapse. And inflation, while a little above the Federal Reserve s target range, flashed no ominous signals.

For shareholders of Liberty All-Star Equity Fund, the biggest news of 2006 was the change in the Fund s adviser from Banc of America Investment Advisors, Inc. to ALPS Advisers, Inc. I ll say more about this momentarily. First, let me address Fund investment performance.

For the full year, the Fund returned 9.7 percent with shares valued at net asset value (NAV) and 10.4 percent with shares valued at NAV with dividends reinvested. In terms of the market price of its shares, the Fund rose 11.7 percent. We were disappointed that the Fund s NAV returns trailed the Lipper Large-Cap Core Mutual Fund Average (+13.5 percent) and the S&P 500 last year after outperforming both those benchmarks for the past three consecutive years.

Looking at the underlying reasons why the Fund trailed its relevant benchmarks during 2006, we would note it was primarily due to the underperformance of the approximately 40 percent of Fund assets allocated to growth stocks in general, and the higher multiple stocks specifically. Conversely, the approximately 60 percent of Fund assets allocated to value stocks outperformed both the Lipper Large-Cap Value Mutual Fund Average and the S&P 500. As Fund shareholders may be aware, value style stocks have experienced a prolonged period of outperformance seven consecutive calendar years in which the Russell 3000 Value Index has outperformed the Russell 3000 Growth Index. Normally, one would have expected a rotation between these two styles by now, but the timing and magnitude of those shifts in leadership has and still remains unpredictable.

The Fund s blending of both growth and value managers has served shareholders well as a core investment holding over long periods involving multiple style rotations. To that point, the Fund s NAV results have outperformed the average manager in the Lipper Large-Cap Core Mutual Fund universe for the past three-, five-, 10-, 15- and 20-year trailing periods ending December 31, 2006. We experienced a similar situation in the late 1990s when value stocks were downtrodden and investors were only interested in growth- and technology-oriented funds. We can t predict when we will experience another shift in leadership, but we do feel it would be as unwise now, as it would have been in the 1999-2000 timeframe, to change our disciplined investment strategy of blending both growth and value managers within the Fund. The following tables trace key metrics for the fourth quarter and full year of 2006, as well as longer-term periods:

FUND STATISTICS AND SHORT-TERM PERFORMANCE PERIODS ENDING DECEMBER 31, 2006	4TH QUARTER	2006
LIBERTY ALL-STAR EQUITY FUND		
STATISTICS:		
Year End Net Asset Value (NAV)		$8.76
Year End Market Price		$8.29
Year End Discount		5.4%
Distributions	$0.22	$0.88
Market Price Trading Range	$7.76 to $8.31	$7.06 to $8.77
Premium/(Discount) Range	(5.4)% to (9.8)%	(3.4)% to (11.5)%
PERFORMANCE:		
Shares Valued at NAV	6.2%	9.7%
Shares Valued at NAV with Dividends Reinvested	6.2%	10.4%
Shares Valued at Market Price with Dividends Reinvested	8.5%	11.7%
S&P 500 Index	6.7%	15.8%
Lipper Large-Cap Core Mutual Fund Average	6.3%	13.5%
NAV Reinvested Percentile Rank (1 = best; 100 = worst)	56th	81st
Number of Funds in Category	853	811

LONG-TERM PERFORMANCE SUMMARY PERIODS ENDING DECEMBER 31, 2006	ANNUALIZED RATES OF RETURN 3 YEARS	5 YEARS	10 YEARS	15 YEARS	20 YEARS
LIBERTY ALL-STAR EQUITY FUND					
Shares Valued at NAV	9.3%	6.6%	7.9%	9.6%	10.9%
Shares Valued at NAV with Dividends Reinvested	9.4%	6.7%	8.2%	9.8%	11.4%
Shares Valued at Market Price with Dividends Reinvested	6.2%	4.7%	8.2%	9.7%	10.8%
S&P 500 Index	10.5%	6.2%	8.4%	10.6%	11.8%
Lipper Large-Cap Core Mutual Fund Average*	8.9%	4.8%	6.9%	9.4%	10.4%
NAV Reinvested Percentile Ranking (1 = best; 100 = worst)	43rd	16th	27th	41st	26th
Number of Funds in Category	680	581	251	92	57

* 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. The Fund s reinvested returns assume that all of the Fund s rights offerings were fully subscribed under the terms of each offering. Figures shown for the unmanaged Lipper benchmark and the S&P 500 Index are total returns, including income. A description of the Lipper benchmark and the S&P 500 Index can be found on page 46.

Past performance cannot predict future results. Performance will fluctuate with changes in 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.

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.

Returning to the change in the Fund s Adviser, as shareholders know, Banc of America Investment Advisors, Inc., in December concluded an agreement with ALPS Holdings, Inc. and ALPS Advisers, Inc. (ALPS) to sell to ALPS its advisory business of managing the Liberty All-Star Equity Fund (and its companion Fund, the Liberty All-Star Growth Fund, Inc.). Shareholders will find more information about ALPS in the editorial section of this report, which immediately follows this letter.

The Fund s management team and staff members continue to manage the Fund, having completed the transition to ALPS. We believe that ALPS will afford the Fund and its shareholders some distinct benefits, specifically its marketing, shareholder servicing and wholesaling capabilities, which should help support the trading of the Fund in the marketplace.

In closing, I would like to draw your attention to our traditional manager roundtable in this report. It s another chance to hear directly from the Fund s five investment managers, who are well-recognized thought leaders in value and growth style investing. In addition to providing information on ALPS, this report s editorial section also features a recap of the Fund s key investment attributes.

Beyond the change in the Fund s Adviser, 2006 marked the Fund s 20th anniversary. In 1986, the Fund s multi-managed, closed-end structure made it a pioneering investment for individual investors. Now, we can look back and say the Fund has proved its value through multiple market cycles and widely varied investment environments. We are excited about prospects for the future, and pledge to remain committed to the best interests of Fund shareholders. We are grateful for your ongoing support of the Fund and will do all in our power to maintain your trust and confidence.

Sincerely,

William R. Parmentier, Jr.

President and Chief Executive Officer

Liberty All-Star Equity Fund

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LIBERTY ALL-STAR® EQUITY FUND
FOUNDATION FOR THE FUTURE

In October 2006, Liberty All-Star Equity Fund marked its 20th anniversary. Just weeks later, the Fund entered a new era with a new investment adviser, ALPS Advisers, Inc. In successfully completing the transition, the Fund has maintained its continuity and looks to a promising future.

For shareholders of Liberty All-Star Equity Fund, the biggest news of 2006 didn t occur officially until December 18. On that date, ALPS Advisers, Inc. assumed the role of the Fund s Investment Adviser from Banc of America Investment Advisors, Inc. Shareholders paved the way by voting to approve related advisory agreements and other proposals on November 21.

As a subsidiary of one of the largest financial organizations in the world, Banc of America Investment Advisors was a familiar name to shareholders. But, what about ALPS Advisers?

Its parent, ALPS Holdings, Inc. (ALPS), was established in 1985, the year before Liberty All-Star Equity Fund commenced operations. ALPS partners with a broad range of fund clients to provide them with a wide array of customized services that, taken together, makes ALPS a valuable source of turnkey service and support capabilities. At its founding, ALPS provided fund administration and fund distribution services. Over time, it has expanded its range of offerings to include fund accounting, transfer agency services, shareholder services, active distribution, legal, tax and compliance services. Today, ALPS provides fund administration services to funds with assets in excess of $13 billion, and distribution services to funds with assets of more than $120 billion.

ALPS has traditionally conducted its business through two wholly-owned subsidiaries: ALPS Fund Services, Inc., a service company and SEC-registered transfer agent, and ALPS Distributors, Inc., an NASD-registered broker-dealer. The advisory agreement with Liberty All-Star Equity Fund is conducted through a third subsidiary, ALPS Advisers, Inc., which is a registered investment adviser with the Securities and Exchange Commission.

ALPS philosophy aligns well with that of the Fund. Quality is the company s hallmark. As the Fund is oriented to the interests of its shareholders, ALPS is focused on its clients needs. ALPS is a leading provider of fund services and support, and is continually enhancing its value to its clients.

Beyond the philosophical fit, however, the Fund stands to gain tangible benefits by being part of the ALPS family. The marketing, shareholder service and wholesaling capabilities of ALPS should support the trading of the Fund in the marketplace. ALPS offers in-depth fund administration, accounting, compliance and distribution experience. In addition, ALPS has made growth of its asset management operations a key component of its business plan, meaning that effective management of the Fund is a strategic priority.

Of significance to shareholders, the investment operations of the Fund remain intact. The fundamental structure of the Fund as a closed-end, multi-managed, core equity vehicle is unchanged, and the five investment managers representing value and growth investment styles remain in place as well (subject, as always, to ongoing review by the Fund s management team and Board of Trustees). Likewise, the Fund s senior management staff including its President and Senior Vice President have transitioned to ALPS Advisers and remain Boston-based.

Bottom line: Liberty All-Star Equity Fund is well positioned to move into its second 20 years on the continued strength of a solid foundation for the future.

Amid change, fundamentals endure

Even as the Fund transitions to tomorrow, the underlying attributes that set it apart remain solidly in place.

When it was established, the Liberty All-Star Equity Fund brought together four key innovations in a single investment vehicle:

- Multi-management
- Real-time trading
- Access to institutional quality managers
- Ongoing monitoring and periodic rebalancing

Over time, these attributes have been enhanced by the Fund s commitment to objectivity and alignment with shareholders best interests, and by its consistent distribution policy. Together, these attributes help to make the Fund a core equity holding for investors seeking diversification, income and the potential for long-term appreciation.

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LIBERTY ALL-STAR® EQUITY FUND
AMID CHANGE, FUNDAMENTALS ENDURE

Multi-management for individual investors

Large institutional investors, such as endowment and pension plans, have traditionally employed multiple investment managers. When it was founded, Liberty All-Star Equity Fund became the first publicly traded, multi-managed, closed-end fund. Twenty years later, multi-management has gained broad acceptance not only among institutions, but also with individual investors.

Real-time trading and liquidity

Owing to its closed-end structure, the Fund has a fixed number of shares that trade on the New York Stock Exchange and other exchanges. Share price is determined by supply and demand, and pricing is continuous not just end-of-day, as it is with open-end mutual funds. Fund shares offer immediate liquidity, there are no annual sales fees and expense ratios are often lower than many comparable open-end mutual funds.

Access to institutional managers

The Fund s investment managers invest primarily for pension funds, endowments, foundations and other institutions. By itself, that does not make them inherently better. But, because they are closely monitored by their institutional clients, these managers tend to be more disciplined and consistent in their investment process.

Monitoring and rebalancing

ALPS Advisers continuously monitors these investment managers to ensure that they are performing as expected and adhering to their style and strategy. If warranted, ALPS will recommend that the Board replace a manager, an action that has occurred 14 times in the Fund s history. Periodic rebalancing maintains the Fund s structural integrity and is a well recognized investment discipline.

Alignment and objectivity

Alignment with shareholders best interests and objective decision making help to ensure that the Fund is managed openly and equitably. A series of checks and balances and the selection of unaffiliated investment managers ensure the integrity of this key principle. In addition, the Fund is governed by a Board of Trustees that is elected by and responsible to the shareholders.

Distribution policy

Since 1988, the Fund has followed a policy of paying annual distributions on its shares at a rate of 10 percent of the Fund s net asset value (paid quarterly at 2.5 percent per quarter), providing a systematic mechanism for distributing funds to shareholders.

LIBERTY ALL-STAR® EQUITY FUND
MULTI-MANAGEMENT HAS PRODUCED MORE CONSISTENT RETURNS

The narrative on the preceding four pages is intended to focus on the unique attributes of the Fund. The chart below demonstrates the long-term outcome of these attributes, particularly the Fund s multi-management structure. Most mutual funds are run by a single portfolio manager or an internal team of managers pursuing a particular investment style, whether it s growth or value. But styles go in and out of favor. A style that outperforms on a relative basis one year may disappoint the next, leading to higher volatility.

As discussed in our Amid Change, Fundamentals Endure feature, ALPS utilizes multi-management, that is, combining managers who practice different investment styles to reduce volatility while producing competitive returns.

All-Star s long-term track record provides clear testimony to the value of the multi-management strategy. The chart below demonstrates that since All-Star s first full calendar year of operation 20 years ago, the Fund has achieved better-than-average returns and better-than-average consistency compared with peer funds in the Lipper Large-Cap Core universe.

Each dot represents the precise 20-year return and consistency record ending December 31, 2006, of each fund in the universe of 38 open-end Large-Cap Core equity mutual funds (as classified by Lipper, Inc.) that has a 20-year history.

Consistency is measured by the volatility of non-market monthly returns, calculated by subtracting the return of the S&P 500 Index from each mutual fund s return. The lower the volatility, the higher the consistency of results compared with the stock market.

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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 DECEMBER 31, 2006
(UNAUDITED)

INVESTEMENT SYTLE SPECTRUM

VALUE — **GROWTH**

	Schneider	Pzena	Matrix	Chase	TCW	Total Fund	S&P 500 Index
Number of Holdings	50	34	34	36	27	154 *	500
Percent of Holdings in Top 10	43 %	43 %	38 %	40 %	60 %	19 %	20 %
Weighted Average Market Capitalization (billions)	$ 26	$ 74	$ 106	$ 92	$ 52	$ 70	$ 101
Average Five-Year Earnings Per Share Growth	6 %	12 %	15 %	27 %	34 %	18 %	20 %
Dividend Yield	1.1 %	2.2 %	1.5 %	1.1 %	0.6 %	1.3 %	1.8 %
Price/Earnings Ratio	10 x	15 x	18 x	20 x	22 x	16 x	17 x
Price/Book Value Ratio	1.9 x	2.7 x	3.1 x	4.9 x	5.3 x	3.5 x	3.6 x

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* Certain holdings are held by more than one manager.

LIBERTY ALL-STAR® EQUITY FUND
MANAGER ROUNDTABLE

In the face of ongoing change, the managers consistently adhere to their style and strategy

Stable short-term interest rates, lower energy prices and strong corporate earnings drove the stock market higher in 2006. In 2007, the drivers may or may not change, and outcomes are open to speculation. Based on comments from the Fund s five investment managers, what remains firmly in place is consistent implementation of their style and strategy.

The Fund s Investment Adviser, ALPS Advisers, recently had the opportunity to moderate the annual roundtable with the Fund s five investment managers. From their respective points of view, the managers look at 2007, but mostly focus on longer-term trends before concluding with comments on a stock they have added recently to the portion of the Liberty All-Star Equity Fund portfolio that they manage. The participating investment managers and their styles are:

CHASE INVESTMENT COUNSEL CORPORATION

Portfolio Manager/David Scott, CFA, CIC,

Senior Vice President and Chief Investment Officer

Investment Style/Growth Chase is a growth manager that has a valuation orientation to its investment process, seeking to invest in quality growth stocks that demonstrate consistent earnings growth but whose shares are reasonably priced.

MATRIX ASSET ADVISORS, INC.

Portfolio Manager/David A. Katz, CFA,

President and Chief Executive Officer

Investment Style/Value Matrix follows an opportunistic value-oriented investment philosophy. Matrix believes that value can be found in all sectors of the economy, and thus looks for investment opportunities beyond traditional value industries.

PZENA INVESTMENT MANAGEMENT, LLC

Portfolio Manager/Antonio DeSpirito, III

Principal and Portfolio Manager

Investment Style/Value Pzena uses fundamental research and a disciplined process to identify good companies with a sustainable business advantage that the firm believes are undervalued on the basis of current price to an estimated normal level of earnings.

SCHNEIDER CAPITAL MANAGEMENT CORPORATION

Portfolio Manager/Arnold C. Schneider, III, CFA, President and Chief Investment Officer

Investment Style/Value The firm practices a disciplined, fundamental approach to add value over time. Research focuses on uncovering new ideas and owning undervalued stocks before they experience a rebound in earnings and come to the attention of other investors.

TCW INVESTMENT MANAGEMENT COMPANY

Portfolio Managers/Craig C. Blum, CFA, Managing Director,

and Stephen A. Burlingame, Managing Director

Investment Style/Growth TCW invests in companies that have superior sales growth, leading and/or rising market shares, and high and/or rising profit margins. TCW s concentrated growth equity strategy seeks companies with distinct advantages in their business model.

A number of market-moving factors affected 2006. These included the Federal Reserve standing pat on short-term interest rates, declining energy costs and continued strength in corporate earnings. Do you expect these to remain in place during 2007 or do you anticipate the emergence of a new set of drivers? Let s ask the growth managers to lead off.

BLUM (TCW GROWTH): Fed policy and energy prices, the key drivers in 2006, are difficult to predict. The current Fed funds rate seems to be out of synch with the rest of the yield curve, indicating that the Fed may have overshot the normal spread over inflation. So, it seems reasonable that the Fed will leave rates unchanged or actually make a modest reduction. The decline in oil prices seems to have pushed the speculators out of the trading pits, resulting in more rational prices. Supply is being expanded and alternative technologies are being developed, but there can be long lead times between capital expenditures and results. Along the way, supply levels will probably remain vulnerable to geopolitical shocks. The dollar may be a bigger factor in 2007. If the economy slows and we are not able to improve our current account deficit the dollar may weaken further. This may slow consumer spending but create opportunities for exporters.

The equity markets during this decade certainly reinforce the wisdom that most long-term investors should be well-diversified at all times

Arnie Schneider,

Schneider Capital Management (Value)

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SCOTT (CHASE INVESTMENT COUNSEL GROWTH): Many of the same factors that sparked 2006 should continue to influence the stock market in 2007. However, some new catalysts will impact the stock market. These include a weakening U.S. dollar, the timing and magnitude of the slowdown in U.S. economic activity, and rising speculation as evidenced by increased short-term trading and record merger and acquisition activity.

The poor relative performance of growth stocks in this decade to date can be directly traced to the massive concentration in growth stock investments in 2000.

David Scott,
Chase Investment Counsel (Growth)

What s on the value managers radar for 2007?

SCHNEIDER (SCHNEIDER CAPITAL MANAGEMENT VALUE): We expect two countervailing forces this year, and it is unclear which one will garner the most attention. Stock prices might come under pressure from a measurable deceleration in corporate profit growth after five years of double-digit gains. On the positive side, a downshift in the economy and corporate profits might deliver the tame inflation data and softness in employment that afford the Fed room to start a modest easing of rates sometime in 2007.

KATZ (MATRIX ASSET ADVISORS VALUE): We believe quite strongly that what we saw in 2006 is just the beginning of a multi-year trend in favor of larger stocks. Furthermore, while the catalyst for their resurgence might have been economic slowing, we do not believe that the continued success of these stocks is dependent on a slower economy. The fundamentals for large and mega-cap stocks are so compelling that all they really needed was the first push to get them back into market favor. Their fundamentals will sustain them from here.

DESPIRITO (PZENA INVESTMENT MANAGEMENT VALUE): It is always difficult anticipating which factors will drive the market over the short term, and as long-term value investors we concentrate our efforts on understanding a company s long-term earnings potential. That said, we expect that the sustainability of earnings growth and the outlook for inflation will continue to be two key drivers of market performance. The S&P 500 has just completed 14 straight quarters of double-digit earnings growth, which is likely not sustainable. Slower growth, however, along with low inflation could provide a favorable environment for equities in 2007.

A much-anticipated rotation that turned out not to occur in 2006 was the one from value to growth. For 2006, the Russell 3000 Value Index was ahead 22.3 percent for the year, while the Russell 3000 Growth Index was up 9.5 percent. This makes seven straight years of value outperformance. From the perspective of your own style (value or growth), what s your point of view on this extended performance differential? Let s ask the value managers for their perspective, followed by the growth managers.

SCHNEIDER (SCHNEIDER CAPITAL MANAGEMENT VALUE): After another year of huge outperformance by value stocks, we would not be surprised if performance leadership shifts to growth style investments. Broad swaths of the value universe appear unattractive to us from both a valuation and earnings perspective. Over the past seven years, the Russell 3000 Value Index has produced an annualized return of 8.4 percent, while the Russell 3000 Growth Index return is down an annualized 4.5 percent during the same period. If these indices were viewed as a company stock, a $30 investment seven years ago in Russell 3000 Value Inc. would now be worth $53, while the same investment in Russell 3000 Growth Inc. would have shriveled to $21.50.

The dollar may be a bigger factor in 2007. If the economy slows and we are not able to improve our current account deficit the dollar may weaken further.

Stephen Burlingame,
TCW (Growth)

KATZ (MATRIX ASSET ADVISORS VALUE): The longer the cycle works against mega-cap stocks, the more dramatic and sustained will be the swing back in the other direction. The same, we believe, is true for growth versus value. The resurgence of mega-caps last year could be the precursor for growth s revival this year. We would be pleased to see it, despite the fact that we are value oriented both by disposition and discipline. We believe that some growth stocks are undervalued today and will be the beneficiaries of the growth revival we expect in 2007.

DESPIRITO (PZENA INVESTMENT MANAGEMENT VALUE): Although value stocks have outperformed for seven straight years, the nature of that outperformance has shifted dramatically. The earlier stages were driven by outperformance of industrial cyclicals and other economically sensitive stocks. Over the last 18 months or so, however, leadership has been taken over by industries that are earning well in excess of their historical levels, such as energy and materials. Although these companies are predominantly represented in the value index, we don t consider them values at today s valuation levels, yet they have perpetuated the outperformance of the value indices. We have taken this opportunity to add former growth names that are now trading at attractive valuations.

BLUM (TCW GROWTH): After a prolonged period of very meager profit growth some classic value industries benefited from incremental demand for commodity and industrial products from developing countries. As the price of oil, copper, zinc and other industrial materials rose, businesses in these industries saw their fortunes improve dramatically. We are now at a point that valuations are discounting continued price and unit volume increases while economic growth seems to be slowing. To our thinking, these undifferentiated, economically sensitive cyclical stocks have had their day. In contrast, classic large capitalization growth stocks appear relatively cheap. These stocks have been out of favor since the tech bubble burst. Yet the growth companies have done a great job of generating profits.

SCOTT (CHASE INVESTMENT COUNSEL GROWTH): The poor relative performance of growth stocks in this decade to date can be directly traced to the massive concentration in growth stock investments in 2000. By some measures, over 90 percent of investments in style allocation funds were growth related. While this concentration has declined significantly and now points to under-investment in growth, a catalyst such as an overall slowing of cyclical earnings growth may be necessary to shift relative performance from value to growth.

As 2007 heralds a move into the last few years of the decade, can you step back and give us your historical perspective on the 00s to date? Our question is driven by the thought that in a period of seven years investors have experienced a microcosm of stock market history: a bubble of historic proportions; a protracted bear market; a recovery to new highs for some indices; and, currently, a debate over the future direction of the market given a huge range of internal and exogenous events and data. Value managers, give us an historical perspective, please.

SCHNEIDER (SCHNEIDER CAPITAL MANAGEMENT VALUE): The equity markets during this decade certainly reinforce the wisdom that most long-term investors should be well-diversified at all times and possess nerves of steel to stay the course during the inevitable downdrafts that occur.

KATZ (MATRIX ASSET ADVISORS VALUE): There is no doubt that the market has covered a lot of ground since the new millennium/century/decade began. We were somewhat puzzled by all the hoopla last year when the Dow Jones Industrial Average reached record territory and made new highs from its previous high water mark in 2000. To us, the real question was, why did it take so long to get back to where it was?

One important answer, of course, is multiple compression the stock market is much less frothy and expensive than it was in 2000. Price/earnings ratios have dropped from the mid-20s to the mid-teens. That becomes very significant as we look at the future direction of the market. Another is that the past seven years have been rather unimpressive. Cumulatively over the period, the S&P 500 had been negative until the latter part of 2006.

Since 2000 price/earnings ratios have dropped from the mid-20s to the mid-teens. That becomes very significant as we look at the future direction of the market.

David Katz,
Matrix Asset Advisers (Value)

DESPIRITO (PZENA INVESTMENT MANAGEMENT VALUE): First, remember that this investment cycle started at a point where the discount for value stocks was the deepest that it had been in a generation, so we had a lot of room for value outperformance. Despite the last seven years, our data tell us that the odds are still in the value investor s favor to secure outperformance over a reasonable investment horizon. The other interesting phenomenon we are seeing is role reversal or growth investors buying what were traditionally considered value stocks e.g., energy, commodities and industrial cyclicals and value investors buying traditional growth names, such as pharmaceuticals and technology.

Interesting thoughts. Where are the growth managers on this one?

BLUM (TCW GROWTH): Add to your list the reality of terrorism on U.S. soil, numerous examples of high profile corporate malfeasance, artificially low interest rates that fueled real estate inflation, and historically high energy and commodity prices and it has been a very challenging period for investors. Despite this, corporate profit growth has been outstanding and operating margins are at their highest level in history. Much of this has to do with the successful utilization of advances in technology, but also improved capital discipline.

we expect that the sustainability of earnings growth and the outlook for inflation will continue to be two key drivers of market performance.

Antonio DeSpirito,
Pzena Investment Management (Value)

SCOTT (CHASE INVESTMENT COUNSEL GROWTH): Even though the U.S. stock market, as measured by the S&P 500 Index, has made little progress so far this decade, the period can be described as anything but uneventful. Beginning with perhaps the greatest stock market bubble of all time, the decade has seen a massive effort by the Federal Reserve to cushion the U.S. economy. Steep cuts in interest rates contributed to two additional bubbles in housing and debt, which have shaped the economy and today threaten its future. These factors combined with globalization, worldwide geopolitical instability and oil-led commodity inflation may lead to considerable uncertainty and volatility for stocks as the decade closes.

To conclude, please tell us about a stock that you have added recently to the portion of the Liberty All-Star Equity Fund portfolio that you manage and your rationale for buying it. We ll ask the growth managers to start.

SCOTT (CHASE INVESTMENT COUNSEL GROWTH): American International Group is a recent addition. AIG is the world s largest insurer, selling life and property casualty insurance in 130 countries. This high quality large capitalization growth company is benefiting from strong pricing and a lack of major catastrophes in recent quarters. Since 30 percent of the company s business comes from the Far East, the stock is considered a legitimate investment in the growth of China. Most importantly, AIG scores very well in our fundamental and technical models and is very reasonably priced, as it trades at less than 1 times both its historical and sustainable earnings growth rates.

BLUM (TCW GROWTH): We have recently established a position in Autodesk, the leading provider of computer-aided design software. The rapid growth of infrastructure projects around the globe coupled with the need to not waste evermore expensive building materials creates a powerful incentive to utilize Autodesk s products. Moreover, we believe the company is in the process of transitioning its customer base to a new generation of three-dimensional modeling software products.

KATZ (MATRIX ASSET ADVISORS VALUE): We recently bought Teva Pharmaceutical Industries, the Israel-based generic pharmaceutical leader, whose American Depositary Receipts are listed on the NYSE. We had successfully owned Teva several years ago, and admire its 20 percent market share in generics, strong 20 percent annual earnings growth and the quality of its management. Teva is somewhat unusual among generic manufacturers for also having a couple of significant proprietary drugs. We became buyers after the stock sold off more than 30 percent, allowing us to buy it at 14 times earnings compared to Teva s historic 21 times multiple. Despite short-term earnings concerns, we expect mid-teens growth over the next three to five years.

SCHNEIDER (SCHNEIDER CAPITAL MANAGEMENT VALUE): AGCO Corporation is the world s third-largest manufacturer and distributor of agricultural equipment, with operations in Europe, North America and Brazil. There are positive trends both inside the company and in the industry that should lead to improved profitability. The company has the largest market share in the rapidly growing Brazilian market, which we believe should begin to recover from its recent slump. The company is also implementing a number of operational improvements inside its

European operations. Finally, the global agriculture cycle looks promising in 2008 and beyond.

DESPIRITO (PZENA INVESTMENT MANAGEMENT VALUE): We added Wal-Mart Stores, the world s largest retailer, to the portfolio. Despite significant earnings growth, Wal-Mart s stock price has gone nowhere for years and the company now trades at about 16 times this year s First Call earnings estimate. We believe Wal-Mart can grow its bottom line as it has several plans in place to improve profits. These include increasing direct sourcing, reducing inventory to free up cash and offset the cost of entering new markets, making selective expense cuts, and moving to a more local merchandising and pricing model. In terms of consumer spending worries, we note that over half of Wal-Mart s sales come from staples, such as food, pharmacy, tobacco, and health and beauty aids.

Many thanks to all for a very interesting discussion. We look forward to a productive 2007.

LIBERTY ALL-STAR® EQUITY FUND
INVESTMENT GROWTH

December 31, 2006

GROWTH OF A $10,000 INVESTMENT

The graph below illustrates the growth of a $10,000 investment assuming the purchase of shares of beneficial interest at the closing market price (NYSE: USA) of $6.00 on December 31, 1987, and tracking its progress through December 31, 2006. For certain information, it also assumes full participation in rights offerings (see below). This graph covers the period since the Fund commenced its 10 percent distribution policy in 1988.

The growth of the investment assuming all distributions were received in cash and not reinvested back into the Fund. The value of the investment under this scenario grew to $48,117 (includes the December 31, 2006 value of the original investment of $13,817, plus distributions during the period of $33,183 and tax credits on retained capital gains of $1,117).

The additional value realized through reinvestment of all distributions and tax credits. The value of the investment under this scenario grew to $105,374.

The additional value realized through full participation in all the rights offerings under the terms of each offering. The value of the investment under this scenario grew to $135,848 excluding the cost to fully participate in all the rights offerings under the terms of each offering which was $35,416.

Past performance cannot predict future results. Performance will fluctuate with changes in 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.

LIBERTY ALL-STAR® EQUITY FUND
TABLE OF DISTRIBUTIONS AND RIGHTS OFFERINGS

YEAR	PER SHARE DISTRIBUTIONS	RIGHTS OFFERINGS MONTH COMPLETED	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					