

LIBERTY ALL STAR EQUITY FUND  
Form N-CSR  
February 28, 2014

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 No.: 811-04809

Liberty All-Star Equity Fund

(exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado 80203

(Address of principal executive offices) (Zip code)

Erin D. Nelson

ALPS Fund Services, Inc.

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 - December 31, 2013

**Item 1. Report of Shareholders.**





LIBERTY ALL-STAR® EQUITY FUND

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PRESIDENT'S LETTER (UNAUDITED)

Fellow Shareholders:

February 2014

The U.S. equity market rewarded investors with exceptionally strong returns in 2013. The S&P 500® Index returned 32.39 percent – its highest since 1997 – as all 10 of the index's sectors finished the year in positive territory. The widely followed Dow Jones Industrial Average (DJIA) posted 51 record highs en route to a 29.65 percent return, while the technology-focused NASDAQ Composite Index delivered the highest return of all, 40.12 percent.

Stocks were strong throughout the year, with the first and fourth quarters producing the best gains for the S&P 500 – 10.61 percent and 10.51 percent, respectively. In between, the S&P 500 produced a second quarter gain of 2.91 percent and a third quarter advance of 5.24 percent. Indicative of the broad-based gains for U.S. stocks, growth style investing and value style investing produced very similar returns. For the year, the Russell 1000® Growth Index gained 33.48 percent, while the Russell 1000® Value Index returned 32.53 percent.

Stocks surged in 2013 as the economy continued to recover at a steady, albeit moderate pace; corporate earnings continued to grow; and, perhaps most importantly, the Federal Reserve kept short-term interest rates at record low levels while continuing to inject liquidity into the financial system through its \$85 billion-a-month bond buying program. Investor optimism could not be slowed by political gridlock in Washington, fears of a softer economy in China, and continuing fiscal and economic woes in the euro zone. A powerful theme running throughout the year was the industrial renaissance in the U.S., as auto, capital equipment and energy output gained strength. U.S. energy production stood out as a growth driver, as hydraulic fracturing methodologies unlocked previously inaccessible or economically impractical oil and gas deposits. While the old economy was strong, so was the new economy, as demonstrated by the market for initial public offerings (IPOs). According to The Wall Street Journal, 230 companies went public on domestic equity markets in 2013, a sharp increase over 144 in 2012.

For investors in Liberty All-Star® Equity Fund, it was a rewarding year. The Fund returned 33.80 percent with shares valued at net asset value (NAV) with dividends reinvested and 33.52 percent with shares valued at market price with dividends reinvested. (Fund returns are net of fees.) Both returns were not only ahead of the S&P 500 and DJIA, they were also higher than the 31.38 percent return of the Lipper Large-Cap Core Mutual Fund Average. The Fund performed consistently well throughout the year, generally tracking key indices but posting its best relative performance in the third quarter. The discount at which Fund shares traded relative to their underlying NAV narrowed moderately compared with 2012, ranging from a low of 9.1 percent to a high of 12.8 percent.

Looking longer term, the Fund's NAV and market price returns lagged the Lipper Large-Cap Core Mutual Fund Average for the trailing three-year period, but have outperformed the Lipper average over the past five years. The trailing five-year period is particularly relevant because 2013 marks five years since the steep equity sell-off of 2008 (when the S&P 500 declined 37.00 percent). In the shareholder letter for the Fund's 2008 annual report, we noted that even in the depths of recession and stock market retreat it is essential for investors to keep faith in the U.S. economy and our financial markets. Indeed, investors who were able to look beyond the immediate crisis were well-rewarded. By year-end 2009, the S&P 500 gained 67.80 percent off the March 9 low and, even accounting for the steep declines in January and February, the S&P 500 gained 26.46 percent for the full year in 2009. In retrospect, the financial system did not come apart, and U.S. banks are now the most highly capitalized in the world. With regard to the Fund itself, an overweight to financial stocks hurt in 2008, but, as the Fund's largest single sector allocation, financials made a solid contribution to return in 2013.

Fund distributions totaled \$0.35 per share in 2013. As shareholders may recall, the Fund's distribution policy has been in place since 1988 and is a major component

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**LIBERTY ALL-STAR® EQUITY FUND**  
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of the Fund's total return. These distributions add up to \$23.09 since 1987 (the Fund's first full calendar year of operations). We would emphasize that shareholders should include these distributions when determining the return on their investment in the Fund.

One of the key principles on which the Fund was founded is multi-management, or the practice of allocating the Fund's assets to carefully selected investment managers representing both value and growth styles of investing. Thus, we are once again offering insights into the managers' thinking through a roundtable discussion to which all five managers have contributed. In particular, we asked the managers to comment on why participation by individual investors in the equity market has declined in recent years. We believe you will find their responses to be of interest. As we have done in recent annual reports, we once again offer a brief summary of the Fund's attributes (on pages 4 and 5). I urge you to revisit these attributes, as they help to make the Fund a unique and attractive investment vehicle.

We are gratified that the Fund rewarded investors in 2013. Uniformly strong equity market returns set a high hurdle for an actively managed fund, like Liberty All-Star Equity® Fund, to outperform passive benchmarks. But, the Fund was able to do that and we believe the Fund is also well positioned for the future. While we are optimistic about the prospects for 2014 and beyond, no one knows what direction equity markets will take going forward. We can, and will, however, remain diligent and disciplined and put our experience and expertise to work in service to our shareholders.

Sincerely,

William R. Parmentier, Jr.

President and Chief Executive Officer

Liberty All-Star® Equity Fund

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## LIBERTY ALL-STAR® EQUITY FUND

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## PRESIDENT'S LETTER (UNAUDITED)

## FUND STATISTICS AND SHORT-TERM PERFORMANCE

## PERIODS ENDING DECEMBER 31, 2013

## FUND STATISTICS:

Net Asset Value (NAV)	\$6.71
Market Price	\$5.97
Discount	11.0%

	Quarter	2013
Distributions*	\$0.10	\$0.35
Market Price Trading Range	\$5.33 to \$ 6.41	\$4.83 to \$6.41
Discount Range	9.9% to 12.7%	9.1% to 12.8%

## PERFORMANCE:

Shares Valued at NAV with Dividends Reinvested	10.11%	33.80%
Shares Valued at Market Price with Dividends Reinvested	12.27%	33.52%
Dow Jones Industrial Average	10.22%	29.65%
NASDAQ Composite Index	11.10%	40.12%
Lipper Large-Cap Core Mutual Fund Average	9.93%	31.38%
S&P 500® Index	10.51%	32.39%

## LONG-TERM PERFORMANCE SUMMARY AND DISTRIBUTIONS

## PERIODS ENDING DECEMBER 31, 2013

## ANNUALIZED RATES OF RETURN

## 3 YEARS 5 YEARS 10 YEARS 25 YEARS

## LIBERTY ALL-STAR® EQUITY FUND

Distributions	\$1.01	\$1.63	\$5.82	\$22.45
Shares Valued at NAV with Dividends Reinvested	13.06%	17.92%	6.35%	9.99%
Shares Valued at Market Price with Dividends Reinvested	14.07%	19.53%	4.74%	10.06%
Dow Jones Industrial Average	15.71%	16.74%	7.44%	11.24%
Lipper Large-Cap Core Mutual Fund Average	14.78%	16.90%	6.98%	9.88%
NASDAQ Composite Index	17.74%	22.86%	8.63%	10.39%
S&P 500® Index	16.18%	17.94%	7.40%	10.26%

\* All 2013 distributions consist of ordinary dividends and long-term capital gains. A breakdown of each 2013 distribution for federal income tax purposes can be found in the table on page 37.

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 performance is calculated assuming that a shareholder exercised all primary rights in the Fund's rights offerings. Figures shown for the unmanaged Dow Jones Industrial Average, NASDAQ Composite Index and the S&P 500® Index are total returns, including dividends. A description of the Lipper benchmark and the market indices can be found on page 37.

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**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.

Closed-end funds raise money in an initial public offering and shares are listed and traded on an exchange. Open-end mutual funds continuously issue and redeem shares at net asset 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.

[www.all-starfunds.com](http://www.all-starfunds.com)

USA



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**UNIQUE FUND ATTRIBUTES (UNAUDITED)**

## Unique Attributes of Liberty All-Star® Equity Fund

Several attributes help to make the Fund a core equity holding for investors seeking diversification, income and the potential for long-term appreciation.

### Multi-management for Individual Investors

Liberty All-Star® Equity Fund is multi-managed, an investment discipline that is followed by large institutional investors to diversify their portfolios. In 1986, Liberty All-Star® Equity Fund became the first closed-end fund to bring multi-management to individual investors.

### Real-time Trading and Liquidity

The Fund has a fixed number of shares that trade on the New York Stock Exchange and other exchanges. Share pricing is continuous not just end-of-day, as it is with open-end mutual funds. In addition, Fund shares offer immediate liquidity and there are no annual sales fees.

UNIQUE FUND ATTRIBUTES (UNAUDITED)

## Access to Institutional Managers

The Fund's investment managers invest primarily for pension funds, endowments, foundations and other institutions. Because institutional managers are closely monitored by their clients, they tend to be more disciplined and consistent in their investment process.

## Monitoring and Rebalancing

ALPS Advisors continuously monitors these investment managers to ensure that they are performing as expected and adhering to their style and strategy, and will replace managers when warranted. 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. In addition, the Fund is governed by a Board of Trustees that is elected by and responsible to shareholders.

## Distribution Policy

Since 1988, the Fund has followed a policy of paying annual distributions on its shares at a rate that approximates historical equity market returns. The current annual distribution rate is 6 percent of the Fund's net asset value (paid quarterly at 1.5 percent per quarter), providing a systematic mechanism for distributing funds to shareholders.

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**INVESTMENT MANAGERS/PORTFOLIO CHARACTERISTICS (UNAUDITED)**

**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, 2013**

	Schneider	Pzena	Matrix	Cornerstone	TCW	Total Fund	S&P 500® Index
Number of Holdings	38	40	35	47	33	164*	500
Percent of Holdings in Top 10	53%	38%	37%	37%	44%	18%	18%
Weighted Average Market Capitalization (billions)	\$42	\$76	\$100	\$68	\$68	\$71	\$118
Average Five-Year Earnings Per Share Growth	1%	9%	12%	19%	19%	12%	13%
Dividend Yield	1.1%	1.8%	2.1%	0.9%	0.7%	1.3%	2.0%
Price/Earnings Ratio**	17x	14x	16x	15x	31x	19x	19x
Price/Book Value Ratio	0.8x	2.6x	2.7x	5.9x	9.6x	4.4x	4.5x

\* Certain holdings are held by more than one manager.

\*\* Excludes negative earnings.

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INVESTMENT GROWTH (UNAUDITED)

**GROWTH OF A HYPOTHETICAL \$10,000 INVESTMENT**

The graph below illustrates the growth of a hypothetical \$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, 2013. For certain information, it also assumes that a shareholder exercised all primary rights in the Fund's rights offerings (see below). This graph covers the period since the Fund commenced its 10 percent distribution policy in 1988. Effective with the 2009 second quarter distribution, the annual distribution rate was changed from 10 percent to 6 percent.

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 \$49,550 (including the December 31, 2013 value of the original investment of \$9,950 plus distributions during the period of \$38,483 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 \$136,435.

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 \$193,299 excluding the cost to fully participate in all the rights offerings under the terms of each offering which was \$49,966.

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.

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**TABLE OF DISTRIBUTIONS AND RIGHTS OFFERINGS (UNAUDITED)**

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				