LIBERTY ALL STAR EQUITY FUND
Form N-CSRS
September 01, 2006

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 811-4809

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

One Financial Center, Boston, Massachusetts 02111
(Address of principal executive offices) (Zip code)

James R. Bordewick, Jr., Esq.
Columbia Management Advisors, LLC
One Financial Center
Boston, MA 02111
(Name and address of agent for service)

Registrant s telephone number, including area code: 1-617-426-3750

Date of fiscal year end: December 31, 2006

Date of reporting period: June 30, 2006

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington,

Item 1. Reports to Stockholders

LIBERTY ALL-STAR® EQUITY FUND

	2nd Quarter 2006	Year-to-Date
Fund Statistics		
Period End Net Asset Value (NAV)		$8.37
Period End Market Price		$7.54
Period End Discount		9.9%
Distributions	$0.22	$0.45
Market Price Trading Range	$7.06 to $8.44	$7.06 to $8.77
Discount Range	6.4% to 11.5%	3.4% to 11.5%
Performance Summary		
Shares Valued at NAV	(3.6)%	(0.5)%
Shares Valued at NAV with Dividends Reinvested	(3.3)%	0.0%
Shares Valued at Market Price with Dividends Reinvested	(6.8)%	(3.7)%
Lipper Large-Cap Core Mutual Fund Average	(2.5)%	1.3%
S&P 500 Index	(1.4)%	2.7%

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 shown for the unmanaged 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 35.

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 shown 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.

President s Letter

Fellow Shareholders: **July 2006**

The S&P 500 Index was ahead 5.6 percent through April of this year before a broad reversal took the index down 2.7 percent during the May June period. The retrenchment reflected a powerful shift in investor sentiment from accepting higher risk in the pursuit of potentially higher returns to an attitude of caution and risk aversion. Investors had benefited from positions in a range of asset classes from emerging markets to industrial commodities that had delivered good to near-spectacular returns over the past couple of years. But the Federal Reserve s protracted series of increases in short-term interest rates coupled with tighter monetary policies of central banks around the world finally took their toll exacerbated by inflation fears, slowing economic growth, corporate earnings worries and geopolitical tensions. It was one of those reversals offering no safe haven, as everything from stocks and bonds to gold, emerging markets and commodities gave up ground.

For the second quarter, the S&P 500 Index declined 1.4 percent, leaving it ahead 2.7 percent year-to-date through June 30. In the first quarter, nine out of 10 S&P sectors posted gains. In the second quarter, only five did and two of those were in positive territory by a slender 0.01 percent. The best return (+5.7 percent) came from utilities the only sector to post a negative return in the first quarter. Energy and consumer staples also showed good returns. The laggards were led by information technology (-9.9 percent) and health care (-5.0 percent).

For the quarter, Liberty All-Star Equity Fund returned -3.6 percent with shares valued at net asset value (NAV), -3.3 percent with shares valued at NAV with dividends reinvested and -6.8 percent with shares valued at market price with dividends reinvested. These returns trailed the S&P 500 Index, as well as the Lipper Large-Cap Core Mutual Fund Average, which returned -2.5 percent.

From an investment return perspective, the primary difficulty for the Fund was underweights to the three best performing sectors in the S&P 500 Index as mentioned, utilities, energy and consumer staples and an overweight to the weak information technology sector.

While we are not pleased with the Fund s second quarter investment return, Fund NAV performance has been decidedly positive and ahead of its Lipper primary benchmark over all longer-term periods, i.e., three, five, 10 and 15 years and since inception. From a market price perspective, the greater concern is the current short-term poor performance.

As shareholders are probably aware, the share price of closed-end funds typically trade at a premium or a discount to the underlying NAV. For the most part over the years, Fund NAV and share price have tracked reasonably well. Over the past five years, for example, Fund shares have averaged a 2.7 percent premium and over the past 10 years they have averaged a 2.0 percent discount. At June 30 the discount was 9.9 percent.

We have experienced premiums or discounts outside the normal range in the past - usually for relatively brief periods of time before returning closer to the average. This particular period began in the fourth quarter of 2005, and has affected many closed-end funds. The question is why. Our belief is that it can be traced in part to sustained increases in short-term interest rates by the Federal Reserve. The Fed has raised the Fed funds rate at 17 straight meetings of the Open Market Committee. As Treasury yields rise, they eventually become a surrogate for the Fund s distribution policy and without the normal risk associated with stock market investing. Although we cannot guarantee when or if the Fund s discount will narrow, be assured that the Fund s long-term philosophy and strategy remain intact, and we continue to monitor the situation closely.

Turning to another matter, we are pleased to introduce Chase Investment Counsel Corporation as a new growth manager in the Fund, replacing Mastrapasqua Asset Management as of June 1. To learn about the Fund s new manager, I invite you to read the interview with Chase Senior Vice President and Senior Portfolio Manager David Scott beginning on page 8. Information about the investment professionals at the firm can be found on page 36.

We are grateful for your long-term support of the Fund.

Sincerely,

/s/ William R. Parmentier, Jr.
William R. Parmentier, Jr.
President and Chief Executive Officer
Liberty All-Star Equity Fund

The views expressed in the President s Letter and the Manager Interview reflect the views of the President and manager, respectively, as of July 2006 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 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 intent. References to specific company securities should not be construed as a recommendation or investment advice.

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

MANAGERS DIFFERING INVESTMENT STYLES 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 Stock Index.

INVESTMENT STYLE SPECTRUM

PORTFOLIO CHARACTERISTICS AS OF JUNE 30, 2006 (UNAUDITED) **VALUE** **GROWTH**

	Schneider	Pzena	Matrix	Chase*	TCW	Total Fund	S&P 500 Index
Number of Holdings	60	33	32	39	29	**166****	500
Percent of Holdings in Top 10	42%	40%	39%	38%	58%	**18%**	19%

Weighted Average Market Capitalization (billions)	$ 23	$ 62	$ 89	$ 53	$ 48	**$ 55**	$ 86
Average Five-Year Earnings Per Share Growth	17%	11%	8%	21%	40%	**19%**	15%
Dividend Yield	1.3%	2.2%	1.8%	1.4%	0.5%	**1.4%**	1.9%
Price/Earnings Ratio	15x	15x	17x	19x	25x	**18x**	16x
Price/Book Value Ratio	2.0x	2.7x	2.7x	4.7x	6.3x	**3.7x**	3.4x

* Chase Investment Counsel Corporation replaced Mastrapasqua Asset Management, Inc. effective June 1, 2006.

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

Investment Growth as of June 30, 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 June 30, 2006. For certain information, it also assumes full participation in rights offerings (see below). This 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 $46,150 (includes the June 30, 2006 value of the original investment of $12,567, plus distributions during the period of $32,466 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 $90,815.

On six occasions, the Fund has conducted rights offerings that allow shareholders to purchase additional shares at a discount. The cost to fully participate in all the rights offerings under the terms of each offering totaled $35,416.

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 $147,601 (includes the cost of the rights of $35,416).

Table of Distributions and Rights Offerings

		RIGHTS OFFERINGS			
YEAR	PER SHARE DISTRIBUTIONS	MONTH COMPLETED	SHARES NEEDED TO PURCHASE ONE ADDITIONAL SHARE	SUBSCRIPTION PRICE	TAX CREDITS*
1988	$ 0.64				
1989	0.95				
1990	0.90				
1991					