

LIBERTY ALL STAR EQUITY FUND

Form N-CSR

March 06, 2013

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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

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)

Tane T. Tyler, General Counsel

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, 2012

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Item 1. Report of Shareholders.

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A SINGLE INVESTMENT...

A DIVERSIFIED CORE PORTFOLIO

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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 one of the world's most dynamic

Access to institutional quality investment managers

Objective and ongoing manager evaluation

Active portfolio rebalancing

A quarterly fixed distribution policy

Actively managed, exchange traded fund listed on the New York Stock Exchange (ticker symbol: USA)

LIBERTY ALL-STAR® EQUITY FUND

The views expressed in the President's Letter, Unique Fund Attributes 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 intent. References to specific company securities should not be construed as a recommendation or investment advice.

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PRESIDENT S LETTER (UNAUDITED)

Fellow Shareholders:

February 2013

Overcoming a wide range of potential obstacles, U.S. stocks turned in a solid 2012, as the S&P 500® Index gained 16.00 percent for the year. The first and third quarters with returns of 12.59 percent and 6.35 percent, respectively propelled the index to its best year since 2009, when it was in rebound mode after the 2007-08 financial crisis. Moderate losses of 2.75 percent and 0.38 percent in the second and fourth quarters, respectively, kept the index from an even stronger year. Other major indices also advanced, with the NASDAQ Composite Index returning 17.45 percent and the widely followed Dow Jones Industrial Average (DJIA) returning 10.24 percent.

The gains came despite a global macro environment with ample reasons for investors to be wary. Among the worries were the ongoing financial crisis in Europe, fears of a hard economic landing in China, continuing high unemployment and lower consumer spending in the U.S., the uncertainty of a presidential election year, and the fiscal cliff debate in Washington. But, coming off a good fourth quarter of 2011, the S&P 500® Index started the year with its strongest first quarter return since 1998. The index continued to advance until hitting a waterfall sell-off in May, sparked by J.P Morgan's announcement of a multi-billion dollar trading loss in London, anemic readings on the U.S. economy, and continued struggles with massive sovereign debt and weak financial institutions in the Euro Zone. While some of these same issues simmered beneath the surface in the third quarter, investors appeared willing to accept the risks, as they were heartened by central banks around the world stimulating their respective economies and, in the U.S., a stronger housing sector, higher consumer confidence and corporate earnings reports that exceeded expectations. Gradual but ongoing improvements in the U.S. economy were not enough to overcome worries over the outcome of the fiscal cliff debate in Washington, and stocks ended the fourth quarter with moderate declines. Although not as severe as it was in 2011, volatility continued to roil stock markets in 2012, as an upwardly

trending market was hit with sharp sell-offs in May and October-November.

For investors in Liberty All-Star Equity Fund, it was a rewarding year. The Fund returned 14.72 percent with shares valued at net asset value (NAV) with dividends reinvested and 20.94 percent with shares valued at market price with dividends reinvested. While the NAV reinvested return moderately lagged the S&P 500® Index, it was just slightly behind the 14.97 percent return of the Lipper Large-Cap Core Mutual Fund Average. The Fund's market price return was ahead of both the S&P 500® and the Lipper benchmark, and more than double the return of the DJIA. The discount at which Fund shares traded relative to their underlying NAV was generally unchanged compared to 2011, ranging from as narrow as 9.2 percent to as wide as 15.3 percent.

The Fund outperformed in the first and fourth quarters, and was in-line with the S&P 500® in the third quarter. The only detractor was a six-week period in the middle of the second quarter when financial stocks, in which the Fund was overweight, were hit hard and investors sought refuge in a few defensive sectors that, in the view of the Fund's investment managers, were overpriced. Yet, in the fourth quarter financials outperformed and the Fund benefited from its overweight position to the financial sector. For the fourth quarter, the Fund ranked in the 21st percentile of peer funds in the Lipper Large-Cap Core Mutual Fund Average but it finished in the 60th percentile for the full year.

Looking long term, we are pleased that over the past 25-year period, the Fund has outperformed the S&P 500® Index with shares valued at market price with dividends reinvested, returning an average of 10.01 percent annually compared to 9.71 percent for the S&P 500® Index (and 9.34 percent for the Fund's Lipper benchmark). We note that the Fund's return over this period is net of fees, while the S&P 500® return includes no fees (and would further point out that any investment in the S&P 500® would incur fees).

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PRESIDENT'S LETTER (UNAUDITED)

Fund distributions totaled \$0.32 per share in 2012. As shareholders may recall, the Fund's distribution policy has been in place for 25 years and is a major component of the Fund's total return. These distributions add up to \$22.74 since that time. We would emphasize that shareholders must include these distributions when determining the return on their investment in the Fund.

Once again, in this annual report we offer a question and answer session with the Fund's five investment managers. We believe you will find the comments of these leading investors to be both interesting and insightful. As we have also 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 pleased that the Fund performed well in 2012—a year in which concerns over issues both at home and abroad could have given pause to investors. But, continued strong company fundamentals and gradual improvements in the economy were sources of optimism and they ultimately carried the day. Volatility, albeit somewhat muted in 2012 compared to 2011, is often a challenge for actively managed funds, such as Liberty All-Star Equity Fund; but the professionalism of the Fund's investment managers and its multi-manager structure led to a rewarding year for investors. We are optimistic about prospects for 2013, but whatever the market holds, please be assured that we will remain diligent and disciplined, and place our shareholders' best interests first and foremost.

Sincerely,

William R. Parmentier, Jr.

President and Chief Executive Officer

Liberty All-Star® Equity Fund

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PERIODS ENDING DECEMBER 31, 2012

FUND STATISTICS:

Net Asset Value (NAV)		\$5.35
Market Price		\$4.77
Discount		10.8%
	Quarter	2012
Distributions	\$0.08	\$0.32
Market Price Trading Range	\$4.25 to \$4.92	\$4.21 to \$5.01
Discount Range	9.2% to 13.6%	9.2% to 15.3%

PERFORMANCE:

Shares Valued at NAV with Dividends Reinvested	1.13%	14.72%
Shares Valued at Market Price with Dividends Reinvested	0.44%	20.94%
S&P 500® Index	(0.38%)	16.00%
Lipper Large-Cap Core Mutual Fund Average*	0.24%	14.97%
NAV Reinvested Percentile Rank (1 = best; 100 = worst)	21st	60th
Number of Funds in Category	970	941

LONG-TERM PERFORMANCE SUMMARY AND DISTRIBUTIONS

PERIODS ENDING DECEMBER 31, 2012

ANNUALIZED RATES OF RETURN

3 YEARS 5 YEARS 10 YEARS 25 YEARS

LIBERTY ALL-STAR® EQUITY FUND

Distributions	\$0.97	\$1.93	\$6.25	\$22.74
Shares Valued at NAV with Dividends Reinvested	7.90%	0.04%	6.88%	9.31%
Shares Valued at Market Price with Dividends Reinvested	10.59%	0.45%	6.43%	10.01%
S&P 500® Index	10.87%	1.66%	7.10%	9.71%
Lipper Large-Cap Core Mutual Fund Average*	8.94%	0.69%	6.52%	9.34%
NAV Reinvested Percentile Ranking (1 = best; 100 = worst)	70th	70th	36th	53rd
Number of Funds in Category	864	753	491	64

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

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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 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 34.

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.

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.

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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.

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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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MULTI-MANAGEMENT HAS PRODUCED MORE CONSISTENT RETURNS (UNAUDITED)

The narrative on the preceding two 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 "Unique Fund Attributes" 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 for the trailing 25-year period ending December 31, 2012, the Fund has achieved better-than-average returns and better-than-average consistency compared with peer funds in the Lipper Large-Cap Core universe that have a 25-year performance history.

Each dot represents the precise 25-year return and consistency record ending December 31, 2012, of each fund in the universe of 42 open-end Large-Cap Core equity mutual funds (as classified by Lipper, Inc.) that has a 25-year history. The star represents the Fund's 25-year NAV reinvested return for the period ending December 31, 2012. 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.

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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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, 2012	INVESTMENT STYLE SPECTRUM					Total Fund	S&P 500® Index
	VALUE				GROWTH		
	Schneider	Pzena	Matrix	Cornerstone	TCW		
Number of Holdings	42	37	34	43	31	153*	500
Percent of Holdings in Top 10	51%	39%	39%	40%	44%	19%	20%
Weighted Average Market Capitalization (billions)	\$32	\$65	\$77	\$87	\$82	\$68	\$105
Average Five-Year							
Earnings Per Share Growth	(2)%	1%	4%	20%	23%	9%	10%
Dividend Yield	1.2%	2.3%	2.4%	1.5%	1.0%	1.6%	2.3%
Price/Earnings Ratio**	12x	12x	13x	15x	23x	14x	16x
Price/Book Value Ratio	1.2x	2.2x	2.1x	4.5x	5.4x	3.1x	3.7x

* 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, 2012. 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 \$46,967 (including the December 31, 2012 value of the original investment of \$7,950 plus distributions during the period of \$37,900 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 \$102,183.

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 \$132,227 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				
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***	0.31				
2010	0.31				
2011	0.34				
2012	0.32				
Total	\$22.74				

* The Fund's net investment income and net realized capital gains exceeded the amount to be distributed under the Fund's 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.

*** Effective with the second quarter distribution, the annual distribution rate was changed from 10 percent to 6 percent.

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

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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.

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MANAGER ROUNDTABLE (UNAUDITED)

Investment Manager Roundtable

A look back at 2012 and a look ahead over the next 12-18 months from the Fund's three value and two growth style investment managers. Plus thoughts on market volatility and professional insights about when to sell a stock.

Liberty All-Star Equity Fund's five investment managers represent long experience, deep knowledge, a proven track record and, given that they represent both growth and value styles of investing, a broad point of view on the stock market and equity investing generally. Thus, once again, we are grateful to be able to call upon this resource to provide Fund shareholders with commentary and insight. The Fund's Investment Advisor, ALPS Advisors, Inc., serves as moderator of the roundtable. Participating investment management firms, the portfolio manager for each, and their respective styles and strategies are:

CORNERSTONE CAPITAL MANAGEMENT LLC

Portfolio Manager/Thomas G. Kamp, CFA

President and Chief Investment Officer

Investment Style/Growth Cornerstone evaluates stocks that its research identifies as offering underappreciated opportunities for growth as defined by one or more of their metrics. Stock selection is further based on the fundamentals of revenue, earnings, cash flow, and management depth and credibility.

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 Manager/Craig C. Blum, CFA

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.

Please summarize what produced the best results for you in 2012 and what, in retrospect, didn't play out the way you thought. As an active manager, did you find volatility and changes in market direction to be especially challenging in 2012? Let us hear from the value managers to begin, starting with David Katz.

Katz (Matrix Value): While the overall market had a good year, and we had positive results as well, it was nevertheless a challenging year. On the plus side, financial stocks had a very positive year, as their fundamental progress was finally recognized; their success last year vindicated our patience with them during a difficult 2011, a disconnected year where the group had improving fundamentals yet weakening stock prices.

On the other hand, we were frustrated by the outsized rewards to anointed tech winners such as Apple, Amazon and Oracle, and the denigration of such proven and successful businesses as Microsoft, Cisco and Corning. This created something of a binary performance situation in the market last year and also deepened some mispricings.

We found the risk on, risk off environment, reflecting a vacillation between macro concerns and fundamental analyses, to be challenging. We believe that it has created significant mispricings, which we expect to reverse in an environment driven by fundamentals.

DeSpirito (Pzena Value): Recovery in deeply discounted industries such as financials our largest sector weight housing and defense were the largest contributors to performance during 2012. Heading into the year, there was continued pessimism surrounding the trajectory of the global economy. Sentiment improved, however, during the latter part of the year, as aggressive central bank intervention improved investors' outlook, U.S. housing statistics turned up and cautious optimism emerged for resolution of the fiscal cliff. While we trimmed back our housing and defense exposure, we maintained our weight in financials. Financials began the year with such depressed valuations that even with strong performance in 2012, they remain our most discounted sector.

Positions that lagged during the year were companies where near-term trends in top-line growth were not favorable, even in spite of these companies leading

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MANAGER ROUNDTABLE (UNAUDITED)

industry positions. Some of these companies reached absurdly low valuations. Although returns throughout the year were volatile and hinged significantly on macroeconomic events, we took advantage of the dips to stock up on leading businesses at very attractive prices.

Schneider (Schneider Capital Management Value): The focus of our research to identify securities with low investor expectations that are temporarily trading at a substantial discount to their underlying business value was rewarded in 2012, especially in the home building and banking industries. Two of the strongest performers were KB Home, a geographically diversified homebuilder, and SunTrust Banks Inc., a regional bank with primary operations in the Southeastern U.S. Our investments in the energy sector were a drag on overall returns, but we believe that a return to more normal winter weather as well as the correction of supply and pricing imbalances will provide a solid platform for improved returns in 2013.

Short-term volatility and swings in market direction do not significantly impact our long-term, research-driven process, but we view it as a positive in general as it generates more investment opportunities.

Growth managers, what worked, what didn't in 2012?

Blum (TCW Growth): As a group, our information technology holdings produced our best results in 2012. In fact, our top three contributors were IT names Apple, Salesforce.com and ARM Holdings. Although we recognized the slack in the economy, we were surprised by the margin compression in two long-held transportation stocks C. H. Robinson Worldwide and Expeditors International of Washington. We thought volume growth would be tepid but the magnitude of the continued margin compression was disappointing.

The key difficulty in today's market is not the existence of volatility, but rather the fact that policy response is often a bigger driver of that volatility than true fundamentals. We have assumed this type of environment would persist leading to our balance between offense and defense in the portfolio over the last few years.

Kamp (Cornerstone Growth): Cornerstone's best results in 2012 were produced in the healthcare sector, led by Gilead Sciences. Gilead's stock was up 85 percent as its acquisition of Pharmasset brought a hepatitis C virus drug that should quickly gain market share when it is approved. Cobalt International was also a strong performer as its oil discovery efforts off the coast of Angola produced exciting results. Apollo Group, a for-profit education company, was a stock that did not play out as we thought, as the inflection point of any turnaround continues to get pushed back while creating a deeper

earnings trough. Technology company Acme Packet and Chinese Web services company Baidu were two stocks in our technology sector that underperformed. Cornerstone was impacted by the volatility of the market as our very strong first quarter was offset by weak results from March through July. We finished strong in the last month of the year but were not satisfied with our small relative annual outperformance given that our style tends to lend itself favorably to volatile markets.

Thank you very much. Something that investors frequently overlook is a manager's sell discipline. They may understand the manager's style and strategy, and the factors that lead to purchasing a stock; but the sell decision is often forgotten. Give us some insights into your sell discipline, please. Let's stay with the growth managers and ask Craig Blum to lead off.

Blum (TCW Growth): We evaluate every holding on an ongoing basis and have both intermediate, 12-18 months, and long-term price targets for every stock in

the portfolio. It is much easier to sell a stock that we have owned for several years and that has fulfilled our long-term price target. The much harder decision is to sell a stock where an unexpected negative development

Our view on the current market volatility is that we welcome it. We believe it provides a real opportunity for true stock pickers to generate alpha.

Craig Blum (TCW Growth)

has occurred and the stock is getting hit. In this latter case, we place the stock on review and ask ourselves two primary questions: First, is the business model impaired? Second, is the revenue opportunity impaired? If either is true, we will sell the position.

Kamp (Cornerstone Growth): Cornerstone will trim or completely sell a given stock under three general conditions. Before identifying them, it helps to know that we invest based on what we call a perception gap, which exists when consensus expectations fail to recognize the true earnings power of a given company. This perception gap is an underappreciated opportunity. So, that said, we sell when:

Valuation is reached; when a price target is reached, its perception gap closes and the margin of safety is reduced. Consequently, risk has increased and the position will generally be trimmed or completely sold.

Fundamentals deteriorate; our perception gap is proved wrong or management is no longer credible.

We find an opportunity in a more attractive stock.

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MANAGER ROUNDTABLE (UNAUDITED)

Value style managers, how about your sell discipline. Arnie Schneider, let's hear from you first.

Schneider (Schneider Capital Management Value): We invest in stocks where we believe business fundamentals will begin to improve in the next 12-18 months and lead to a strong earnings rebound. We generally have a 3-5 year investment horizon. Reasons to sell a current holding include:

- The stock has appreciated in price and reaches a pre-determined target
- The stock is displaced by a new idea with superior investment potential
- The company or industry exposure is trimmed due to substantial appreciation in price
- The underlying investment case is permanently diluted or delayed

Katz (Matrix Value): Our sell discipline is a reflection of our buy discipline, in that both focus on the difference between a company's current stock price and its fair value. As the company's stock price rises to the level of its dynamic fair value, we consider selling. The exact sell price will depend on the prevailing environment as well as the company's particulars.

Beyond a company reaching its fair value, we are constantly examining its business prospects, a stock's timeliness and management's commitment to shareholder value. Adverse developments in one or more of these could trigger a sale.

On the downside, while we do not employ a stop-loss mechanism, we will sell when there has been a significant erosion in fair value, driven by a decline in earnings power or margins, or where management has taken steps that we believe are detrimental to shareholders.

DeSpirito (Pzena Value): Our sell discipline is just that...disciplined. We buy companies when they are in the cheapest one-fifth of our large cap investment universe which is the largest 500 U.S. listed companies and we sell companies when they reach the midpoint valuation of that universe. Over 17-plus years of our firm's history, we have never deviated from this practice. The reasons are twofold: first, it removes the emotion that can destroy the value of good research and,

Our sell discipline is just that...disciplined. We believe our sell discipline is instrumental to delivering long-term value for our investors.

Tony DeSpirito (Pzena Value)

second, it provides a systematic approach to harvesting capital from what have become relatively expensive holdings back into new, deeply undervalued names that have qualified for inclusion in our portfolios. We believe our sell discipline is instrumental to delivering long-term value for our investors.

In the current market environment, volatility seems to have widened the performance differential between winner and loser stocks, even when the fundamentals do not justify such wide differentials. Does this phenomenon affect your sell decisions? Do you consider such harsh treatment of stocks unreasonable when the fundamentals are still strong? Value and growth perspectives should be interesting. Let's hear from the value side, starting with Tony DeSpirito.

DeSpirito (Pzena Value): We agree that the market environment has been extremely unfriendly to companies that have announced disappointing revenues and/or earnings even if their underlying fundamentals are strong. Our whole investment philosophy, however, is to look

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beyond the here-and-now and focus on the long-term prospects for a business. We estimate the earnings potential of the business five years from now and base our valuation metrics and fair value estimates on that number. The only time we change that number is if we judge there has been a significant change in the underlying fundamentals of the business either positive or negative. So, the short answer is that market volatility does not impact our sell discipline, and should the market treat a company harshly in spite of a favorable long-term outlook, we will view it as a buying opportunity.

Arnie Schneider and David Katz, your views please?

Schneider (Schneider Capital Management Value): Our sell discipline, as previously described, is focused on industry and individual company fundamentals. The decisions to buy, hold or sell are not driven primarily by market volatility or any short-term valuation dislocations that may result. In fact, we consider using price volatility to our favor; when a stock we own declines in price for no fundamental reason, we may buy more. Conversely, when a stock we own has a dramatic rise in price that is not supported by the fundamentals, we may sell some of our position.

Katz (Matrix Value): We have responded to volatility by opportunistically taking gains a little bit earlier than we might be inclined to do in a less volatile environment. We have done this in cases where we believe market perceptions can change quickly, and there is more exposure to a stock round tripping itself. We are also looking closely at the relative attractiveness of similarly-situated companies to ones we own, as volatility might have created a more compelling situation elsewhere.

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MANAGER ROUNDTABLE (UNAUDITED)

It is certainly frustrating to see fundamentally strong companies being mis-valued. It requires patience, which can be painful in the short term, but the market will typically get it right eventually, especially with successful, strong businesses. If we like the business, and management's stewardship of it, we are usually inclined to wait and will often times increase our position during weakness in anticipation of the market re-valuing the stock higher.

How about the growth point of view on volatility, starting with Tom Kamp.

Kamp (Cornerstone Growth): This question speaks directly to Cornerstone's V-factor trading philosophy, which is a vital piece of our investment process. This is a strategy that buys the dips or sells into strength with the crucial assumption that the price move was greater than the change in fundamentals. As the reward-to-risk ratio for individual stocks rises or falls through the normal volatility in the marketplace, we dynamically change the risk parameters of the portfolio. We build risk into the portfolio during periods of weakness by adding to positions in stocks with the highest reward-to-risk ratios and reducing our exposure to stocks with lesser reward-to-risk ratios. While we do not know where the bottom is while doing this, we are confident of the fundamentals. We are looking for that kick off the bottom driven by the market realizing the perception gap(s) that we had identified.

Blum (TCW Growth): Our view on the current market volatility is that we welcome it. We believe it provides a real opportunity for true stock pickers to generate alpha, which we generally define as excess return over a benchmark.

As you look out over the next 12 to 18 months, what are the key trends that you will be focusing on, and what is a stock in the portion of the Fund's portfolio that you manage that represents each? Craig, lead off for the growth style managers, please.

Blum (TCW Growth): As we think about the next 12-18 months, we see a bevy of irreversible trends, including but not limited to the following: higher inflation, cloud computing and high data-rate wireless. With regard to inflation, we believe monetary inflation has already occurred due to the many rounds of quantitative easing by the Fed but that we are just starting to see inflation in goods. Although many investors think inflation is terrible for equities, we believe inflation can help stocks as companies with pricing power—a key characteristic that we look for—can adjust to higher inflation and pass along higher prices. While this theme is broadly represented in our portfolio, one name we'd highlight that you won't find in many growth portfolios, is Silver Wheaton (SLW), a silver streaming company. Streaming is basically a form of

alternative financing for miners and the business model is characterized by high margins, high cash flow, limited ongoing capital intensity and more limited operational risks. The model works particularly well in silver because the majority of silver is produced as a by-product and not as the focus ore for the miner. Given SLW's leverage to silver prices that comes without the exposure to higher production costs, SLW benefits from higher inflation. Yet, the company also benefits from periods of lower silver prices as financing options for miners become more scarce and streaming deals become more accretive to SLW. Cloud computing is another trend that we have invested in for years and that we see only getting bigger. Amazon and Salesforce.com are two obvious examples. A third trend is high data-rate wireless. It is no secret that with the ubiquity of smartphones, tablets and mobile devices, data growth is exploding. In fact, we think wireless network demand could increase 25 times over the next five years. American Tower, a wireless tower company, is a key beneficiary of this trend. The business model is also very attractive with very strong revenue and cash flow visibility resulting from long-term contracts of five to 10 years, with annual price escalators. Unique economics and incremental margins from tenant additions are robust and there are high switching costs for American Tower's customers.

Kamp (Cornerstone Growth): Cornerstone's bottoms-up, fundamental, research-based investment process is focused on individual stock selection and is not thematically driven. However, many of the stocks in our portfolio are driven by secular themes that provide long-term revenue growth opportunities. Our largest portfolio position, Apple, is leveraged to the theme of proliferation of mobile devices and content to the upper end of the market. This theme also benefits Qualcomm in addition to growth in global mobility and the expansion of Internet connectivity.

We believe one of the stronger macro trends in the U.S. over the next 12-18 months is the recovery in the housing market. We have exposure to this theme with

Many of the stocks in our portfolio are driven by secular themes that provide long-term revenue growth opportunities; these include proliferating mobile devices, Internet connectivity and recovery in the housing market.

Tom Kamp (Cornerstone Growth)

Sherwin-Williams. A stronger housing market will also improve Camden Property's ability to raise rental rates. We are also following two retail themes. One is Winning-Brands-Winning, i.e., brands supported by heavy promotional spending taking an increasing share of market as are performance-oriented products, which are represented in the portfolio by The North Face, a VF Corporation brand. The second is Brand over Boxes, which obviates the channel risks of e-commerce and has

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MANAGER ROUNDTABLE (UNAUDITED)

led us to an investment in Nike. Health insurer WellPoint is leveraged to the continuation, over the next 12 months, of the low utilization of healthcare. In the financial sector, we believe improving credit trends and improving loan growth will benefit credit card issuer Capital One.

David Katz, what is a value manager looking at over the next 12-18 months?

Katz (Matrix Value): We envision a market that is more fundamentally driven than macro focused and, as a result, will be kinder to some of the lagging sectors of the past few years, assuming business remains strong. We believe that a number of sectors, including financials, energy and technology, will be beneficiaries of this change. Some stocks that would benefit from this change would be JPMorgan Chase, MetLife and Charles Schwab

Looking ahead, we envision a market that is more fundamentally driven than macro focused and, as a result, will be kinder to financials, energy and technology.

David Katz (Matrix Value)

among financials, Schlumberger and Occidental Petroleum among energy stocks, and Cisco Systems and Microsoft among technology stocks. We also believe that the market's attraction to dividends will continue as a way of protecting against volatility. We see this applying to many high-quality and well-priced companies, including many that are in our portfolio. Johnson & Johnson and Procter & Gamble are two examples that should benefit from this trend.

Arnie Schneider and Tony DeSpirito, wrap it up for us, please.

Schneider (Schneider Capital Management Value): We see the continuation of the housing rebound to be a key trend over the next 12-18 months. The supporting factors we see include:

Home price appreciation has turned positive after a five-year drought, bolstering consumer wealth and confidence.

Housing affordability and attractiveness increasing as rental market prices continue to escalate.

New home sales are rebounding, but remain significantly below the long-term average of 15 percent of total purchases.

We see the continuation of the housing rebound to be a key trend over the next 12-18 months.

Family formations are

Arnie Schneider (Schneider Capital Management Value)

increasing as the economy grows, albeit slowly, which will add to further demand.

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The improving housing market will provide direct support to the banking and homebuilding industries, which we believe continue to have a long runway in front of them. We believe Toll Brothers among homebuilders and Regions Financial among banks are two names that will benefit in this environment.

DeSpirito (Pzena Value): The single most important trend in today's market is the dramatic valuation disparity between bonds and stocks, and within equities between those with stable earnings or high dividend yields, that are at or close to peak valuations, and many companies with cyclical earnings that remain depressed. Investors have shunned businesses that are exposed to the economic cycles, and particularly punished those that are undergoing near-term revenue challenges. A good example is Hewlett-Packard (HPQ) the world's largest technology company by revenues. Although investors are concerned about the long-term impact of cloud computing and tablets on the company, not to mention internally-generated issues, we see a company with leading business franchises across a diverse range of technology products and services, a strong balance sheet, ample free cash flow, and the resources and strategic focus to meet these challenges. HPQ is the cheapest non-financial company in our investment universe, and is the largest holding in our portfolio. We would also hasten to add that there is a wide assortment of financial companies, ranging from banks to insurance companies to wealth managers, that fit this profile as well and that represent about one-third of our portfolio.

Many thanks to all for sharing excellent insights into the past year, the months ahead and your own investment decision-making.

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TOP 20 HOLDINGS AND ECONOMIC SECTORS (UNAUDITED)*December 31, 2012*

TOP 20 HOLDINGS*	PERCENT OF NET ASSETS
Apple, Inc.	3.39%
JPMorgan Chase & Co.	2.52
QUALCOMM, Inc.	2.11
Schlumberger Ltd.	1.77
Citigroup, Inc.	1.72
ACE Ltd.	1.63
Google, Inc., Class A	1.60
SunTrust Banks, Inc.	1.46
State Street Corp.	1.38
TE Connectivity Ltd.	1.34
Visa, Inc., Class A	1.27
MetLife, Inc.	1.21
The Allstate Corp.	1.20
Devon Energy Corp.	1.18
Bank of America Corp.	1.11
Toll Brothers, Inc.	1.10
Teva Pharmaceutical Industries Ltd.	1.08
Microsoft Corp.	1.07
NVR, Inc.	1.05
American Tower Corp., Class A	1.03
	30.22%

ECONOMIC SECTORS*	PERCENT OF NET ASSETS
Financials	22.97%
Information Technology	21.92
Energy	14.43
Consumer Discretionary	12.32
Health Care	8.87

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Industrials	7.27
Consumer Staples	5.58
Materials	2.65
Telecommunication Services	1.55
Utilities	1.02
Other Net Assets	1.42
	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.

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The following are the major (\$3 million or more) stock changes both purchases and sales that were made in the Fund's portfolio during the fourth quarter of 2012.

SECURITY NAME	PURCHASES (SALES)	SHARES HELD AS OF 12/31/12
PURCHASES		
Apple, Inc.	13,263	63,012
Bank of America Corp.	601,846	946,196
Express Scripts Holding Co.	76,296	76,296
NIKE, Inc., Class B	40,277	81,460*
Philip Morris International, Inc.	60,828	60,828
Weatherford International Ltd.	482,755	675,369
SALES		
Alcoa, Inc.	(407,000)	0
The Allstate Corp.	(74,325)	295,670
British American Tobacco PLC	(58,691)	0
Computer Sciences Corp.	(115,700)	0
Google, Inc., Class A	(4,813)	22,293
KB Home	(212,440)	121,860
OpenTable, Inc.	(71,921)	0
St. Jude Medical, Inc.	(169,000)	0
VF Corp.	(28,805)	14,969
Wells Fargo & Co.	(133,785)	286,865

* Adjusted for stock split.

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SCHEDULE OF INVESTMENTS*as of December 31, 2012*

COMMON STOCKS (98.58%)	SHARES	MARKET VALUE
u CONSUMER DISCRETIONARY (12.32%)		
Auto Components (1.83%)		
Delphi Automotive PLC ^(a)	175,450	\$ 6,710,962
Johnson Controls, Inc.	254,814	7,822,790
Magna International, Inc.	72,325	3,617,697
		18,151,449
Diversified Consumer Services (0.87%)		
Apollo Group, Inc., Class A ^(a)	413,397	8,648,265
Hotels, Restaurants & Leisure (2.09%)		
Carnival Corp.	119,650	4,399,531
Marriott International, Inc., Class A	196,256	7,314,461
Orient-Express Hotels Ltd., Class A ^(a)	172,170	2,012,667
Starbucks Corp.	130,100	6,975,962
		20,702,621
Household Durables (2.35%)		
KB Home	121,860	1,925,388
NVR, Inc. ^(a)	11,345	10,437,400
Toll Brothers, Inc. ^(a)	338,201	10,934,038
		23,296,826
Internet & Catalog Retail (1.51%)		
Amazon.com, Inc. ^(a)	37,028	9,299,212
priceline.com, Inc. ^(a)	9,075	5,637,390
		14,936,602
Media (1.12%)		
CBS Corp., Class B Non-voting Shares	29,282	1,114,180
Omnicom Group, Inc.	140,000	6,994,400
The Walt Disney Co.	60,775	3,025,988
		11,134,568
Multi-Line Retail (0.54%)		
Dollar General Corp. ^(a)	121,292	5,347,764
Specialty Retail (1.02%)		
Dick's Sporting Goods, Inc.	60,741	2,763,108
Staples, Inc.	646,750	7,372,950
		10,136,058
Textiles, Apparel & Luxury Goods (0.99%)		
Burberry Group PLC ^(b)	81,049	3,305,178
NIKE, Inc., Class B	81,460	4,203,336
VF Corp.	14,969	2,259,870
		9,768,384
u CONSUMER STAPLES (5.58%)		

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Beverages (1.98%)

The Coca-Cola Company	201,754	7,313,582
Diageo PLC ^(b)	46,684	5,442,421
Molson Coors Brewing Co., Class B	91,025	3,894,960
PepsiCo, Inc.	44,000	3,010,920
		19,661,883

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SCHEDULE OF INVESTMENTS*as of December 31, 2012*

COMMON STOCKS (continued)	SHARES	MARKET VALUE
Food & Staples Retailing (1.14%)		
Costco Wholesale Corp.	74,619	\$ 7,370,119
CVS Caremark Corp.	80,000	3,868,000
		11,238,119
Food Products (1.32%)		
Archer-Daniels-Midland Co.	210,000	5,751,900
Kellogg Co.	44,000	2,457,400
Mead Johnson Nutrition Co.	73,900	4,869,271
		13,078,571
Household Products (0.63%)		
The Procter & Gamble Co.	92,500	6,279,825
Tobacco (0.51%)		
Philip Morris International, Inc.	60,828	5,087,654
u ENERGY (14.43%)		
Energy Equipment & Services (4.38%)		
Baker Hughes, Inc.	68,300	2,789,372
National-Oilwell Varco, Inc.	51,400	3,513,190
Oceaneering International, Inc.	105,300	5,664,087
Schlumberger Ltd.	252,925	17,525,173
Tidewater, Inc.	143,000	6,389,240
Weatherford International Ltd. ^(a)	675,369	7,557,379
		43,438,441
Oil, Gas & Consumable Fuels (10.05%)		
Anadarko Petroleum Corp.	44,439	3,302,262
Arch Coal, Inc.	1,389,230	10,169,164
BP PLC ^(b)	214,107	8,915,416
Chesapeake Energy Corp.	586,321	9,744,655
Chevron Corp.	61,000	6,596,540
Cobalt International Energy, Inc. ^(a)	241,690	5,935,906
ConocoPhillips	103,000	5,972,970
CONSOL Energy, Inc.	63,150	2,027,115
Devon Energy Corp.	224,673	11,691,983
Exxon Mobil Corp.	44,775	3,875,276
Occidental Petroleum Corp.	117,000	8,963,370
Peabody Energy Corp.	367,960	9,791,416
Royal Dutch Shell PLC, Class A ^(b)	129,081	8,900,135
Valero Energy Corp.	58,000	1,978,960
WPX Energy, Inc. ^(a)	117,465	1,747,879
		99,613,047
u FINANCIALS (22.97%)		
Capital Markets (5.08%)		

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The Charles Schwab Corp.	667,100	9,579,556
Franklin Resources, Inc.	32,825	4,126,102
The Goldman Sachs Group, Inc.	33,575	4,282,827
Invesco Ltd.	193,325	5,043,849
Morgan Stanley	419,100	8,013,192
State Street Corp.	291,100	13,684,611
UBS AG	359,525	5,658,924
		50,389,061

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SCHEDULE OF INVESTMENTS*as of December 31, 2012*

COMMON STOCKS (continued)	SHARES	MARKET VALUE
Commercial Banks (4.54%)		
BB&T Corp.	190,000	\$ 5,530,900
Huntington Bancshares, Inc.	348,386	2,226,186
KeyCorp	253,210	2,132,028
PNC Financial Services Group, Inc.	93,489	5,451,344
Regions Financial Corp.	750,118	5,340,840
SunTrust Banks, Inc.	511,513	14,501,394
Wells Fargo & Co.	286,865	9,805,046
		44,987,738
Consumer Finance (1.13%)		
American Express Co.	103,500	5,949,180
Capital One Financial Corp.	89,709	5,196,842
		11,146,022
Diversified Financial Services (5.35%)		
Bank of America Corp.	946,196	10,975,874
Citigroup, Inc.	431,554	17,072,276
JPMorgan Chase & Co.	568,875	25,013,434
		53,061,584
Insurance (6.46%)		
ACE Ltd.	202,855	16,187,829
The Allstate Corp.	295,670	11,877,064
American International Group, Inc. ^(a)	177,475	6,264,868
Assured Guaranty Ltd.	269,219	3,830,986
Axis Capital Holdings Ltd.	257,335	8,914,084
Genworth Financial, Inc., Class A ^(a)	212,084	1,592,751
MetLife, Inc.	364,850	12,018,159
RenaissanceRe Holdings Ltd.	16,688	1,356,067
WR Berkley Corp.	52,331	1,974,972
		64,016,780
Real Estate Investment Trusts (0.41%)		
Camden Property Trust	59,236	4,040,487
u HEALTH CARE (8.87%)		
Biotechnology (0.26%)		
Celgene Corp. ^(a)	32,770	2,579,654
Health Care Equipment & Supplies (2.08%)		
Becton, Dickinson and Co.	75,650	5,915,073
Hologic, Inc. ^(a)	211,189	4,230,116
Intuitive Surgical, Inc. ^(a)	7,100	3,481,627
Zimmer Holdings, Inc.	105,000	6,999,300
		20,626,116

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Health Care Providers & Services (2.08%)

Brookdale Senior Living, Inc. ^(a)	281,142	7,118,515
Express Scripts Holding Co. ^(a)	76,296	4,119,984
Laboratory Corp. of America Holdings ^(a)	18,500	1,602,470
WellPoint, Inc.	127,431	7,763,097
		20,604,066

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COMMON STOCKS (continued)	SHARES	MARKET VALUE
Health Care Technology (0.69%)		
Cerner Corp. ^(a)	88,864	\$ 6,899,401
Life Sciences Tools & Services (0.95%)		
Life Technologies Corp. ^(a)	117,100	5,747,268
Thermo Fisher Scientific, Inc.	57,000	3,635,460
		9,382,728
Pharmaceuticals (2.81%)		
Abbott Laboratories	57,875	3,790,813
Allergan, Inc.	77,900	7,145,767
Johnson & Johnson	88,500	6,203,850
Teva Pharmaceutical Industries Ltd. ^(b)	286,306	10,690,666
		27,831,096
INDUSTRIALS (7.27%)		
Aerospace & Defense (2.25%)		
The Boeing Co.	36,665	2,763,074
L-3 Communications Holdings, Inc.	76,175	5,836,529
Northrop Grumman Corp.	72,650	4,909,687
Precision Castparts Corp.	37,300	7,065,366
Textron, Inc.	70,009	1,735,523
		22,310,179
Airlines (0.27%)		
US Airways Group, Inc. ^(a)	195,940	2,645,190
Building Products (0.43%)		
Masco Corp.	255,725	4,260,378
Construction & Engineering (0.58%)		
Fluor Corp.	97,876	5,749,236
Electrical Equipment (0.95%)		
Emerson Electric Co.	120,000	6,355,200
Rockwell Automation, Inc.	35,829	3,009,278
		9,364,478
Machinery (0.98%)		
Joy Global, Inc.	70,956	4,525,574
Navistar International Corp. ^(a)	237,916	5,179,431
		9,705,005
Professional Services (0.48%)		
Verisk Analytics, Inc., Class A ^(a)	94,000	4,794,000

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Road & Rail (0.48%)

CSX Corp.

240,826

4,751,497

Trading Companies & Distributors (0.68%)

Fastenal Co.

144,797

6,760,572

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COMMON STOCKS (continued)	SHARES	MARKET VALUE
Transportation Infrastructure (0.17%)		
Aegean Marine Petroleum Network, Inc.	318,125	\$ 1,679,700
u INFORMATION TECHNOLOGY (21.92%)		
Communications Equipment (3.88%)		
Acme Packet, Inc. ^(a)	158,031	3,495,646
Cisco Systems, Inc.	516,232	10,143,959
Harris Corp.	79,200	3,877,632
QUALCOMM, Inc.	337,328	20,921,082
		38,438,319
Computers & Peripherals (5.58%)		
Apple, Inc.	63,012	33,587,286
Dell, Inc.	942,737	9,549,926
Hewlett-Packard Co.	701,650	9,998,513
NetApp, Inc. ^(a)	64,880	2,176,724
		55,312,449
Electronic Equipment & Instruments (2.00%)		
Avnet, Inc. ^(a)	22,685	694,388
Corning, Inc.	460,000	5,805,200
TE Connectivity Ltd.	357,900	13,285,248
		19,784,836
Internet Software & Services (3.68%)		
Baidu, Inc. ^{(a)(b)}	61,823	6,200,229
eBay, Inc. ^(a)	47,129	2,404,521
Equinix, Inc. ^(a)	29,800	6,144,760
Google, Inc., Class A ^(a)	22,293	15,813,985
LinkedIn Corp., Class A ^(a)	29,900	3,433,118
Monster Worldwide, Inc. ^(a)	442,000	2,484,040
		36,480,653
IT Services (2.49%)		
Cognizant Technology Solutions Corp., Class A ^(a)	78,300	5,798,115
Visa, Inc., Class A	82,949	12,573,409
The Western Union Co.	463,098	6,302,764
		24,674,288
Semiconductors & Semiconductor Equipment (0.79%)		
ARM Holdings PLC ^(b)	167,200	6,325,176
MEMC Electronic Materials, Inc. ^(a)	468,805	1,504,864
		7,830,040
Software (3.50%)		
Citrix Systems, Inc. ^(a)	51,834	3,408,086

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Microsoft Corp.	398,225	10,644,554
Oracle Corp.	217,500	7,247,100
Salesforce.com, Inc. ^(a)	48,900	8,220,090
VMware, Inc., Class A ^(a)	55,100	5,187,114
		34,706,944

u MATERIALS (2.65%)

Chemicals (1.74%)

The Mosaic Co.	94,056	5,326,391
PPG Industries, Inc.	19,925	2,696,849
Praxair, Inc.	57,200	6,260,540
The Sherwin-Williams Co.	19,413	2,986,108
		17,269,888

See Notes to Schedule of Investments and Financial Statements

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SCHEDULE OF INVESTMENTS*as of December 31, 2012*

COMMON STOCKS (continued)	SHARES	MARKET VALUE
Metals & Mining (0.91%)		
Freeport-McMoRan Copper & Gold, Inc.	98,584	\$ 3,371,573
Silver Wheaton Corp.	155,300	5,603,224
		8,974,797
u TELECOMMUNICATION SERVICES (1.55%)		
Wireless Telecommunication Services (1.55%)		
American Tower Corp., Class A	132,560	10,242,911
Vodafone Group PLC ^(b)	205,500	5,176,545
		15,419,456
u UTILITIES (1.02%)		
Electric Utilities (0.63%)		
Entergy Corp.	80,975	5,162,156
FirstEnergy Corp.	24,659	1,029,760
		6,191,916
Independent Power Producers & Energy Traders (0.39%)		
NRG Energy, Inc.	168,848	3,881,824
TOTAL COMMON STOCKS (COST OF \$956,940,626)		977,070,455
SHORT TERM INVESTMENT (2.06%)	PAR VALUE	MARKET VALUE
u REPURCHASE AGREEMENT (2.06%)		
Repurchase agreement with State Street Bank & Trust Co., dated 12/31/12, due 01/02/13 at 0.01%, collateralized by various Federal National Mortgage Association Securities 3.05% - 3.50%, 05/01/41 - 01/01/42, market value of \$20,866,482 (Repurchase proceeds of \$20,448,011) (COST OF \$20,448,000)		
	\$ 20,448,000	20,448,000
TOTAL INVESTMENTS (100.64%) (COST OF \$977,388,626) ^(c)		997,518,455
LIABILITIES IN EXCESS OF OTHER ASSETS (-0.64%)		(6,391,969)

NET ASSETS (100.00%) \$ 991,126,486

NET ASSET VALUE PER SHARE
(185,317,348 SHARES OUTSTANDING) \$ 5.35

Notes to Schedule of Investments:

- (a) Non-income producing security.
- (b) American Depositary Receipt.
- (c) Cost of investments for federal income tax purposes is \$987,247,370.

See Notes to Financial Statements

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LIBERTY ALL-STAR® EQUITY FUND

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SCHEDULE OF INVESTMENTS

as of December 31, 2012

Gross unrealized appreciation and depreciation at December 31, 2012 based on cost of investments for federal income tax purposes is as follows:

Gross unrealized appreciation	\$ 149,770,604
Gross unrealized depreciation	(139,499,519)
Net unrealized appreciation	\$ 10,271,085

For Fund compliance purposes, the Fund's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease. Industries are shown as a percent of net assets. These industry classifications are unaudited.

See Notes to Financial Statements

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STATEMENT OF ASSETS AND LIABILITIES*December 31, 2012***ASSETS:**

Investments at market value (Cost \$977,388,626)	\$ 997,518,455
Cash	3,895
Receivable for investment securities sold	6,808,113
Dividends and interest receivable	719,385
Due from Portfolio Managers	82,264
Prepaid and other assets	1,212

TOTAL ASSETS	1,005,133,324
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LIABILITIES:

Payable for investments purchased	5,102,779
Distributions payable to shareholders	7,867,739
Investment advisory fee payable	610,748
Payable for administration, pricing and bookkeeping fees	162,315
Accrued expenses	263,257

TOTAL LIABILITIES	14,006,838
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NET ASSETS	\$ 991,126,486
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NET ASSETS REPRESENTED BY:

Paid-in capital	\$ 1,086,024,869
Overdistributed net investment income	(7,867,739)
Accumulated net realized loss on investments	(107,160,473)
Net unrealized appreciation on investments	20,129,829

NET ASSETS	\$ 991,126,486
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Shares of common stock outstanding (unlimited number of shares of beneficial interest without par value authorized)	185,317,348
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NET ASSET VALUE PER SHARE	\$ 5.35
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See Notes to Financial Statements

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STATEMENT OF OPERATIONS*Year Ended December 31, 2012***INVESTMENT INCOME:**

Dividends (Net of foreign taxes withheld at source which amounted to \$ 83,094)	\$ 17,424,773
Interest	2,025

TOTAL INVESTMENT INCOME	17,426,798
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EXPENSES:

Investment advisory fee	7,186,468
Administration fee	1,796,617
Pricing and bookkeeping fees	182,279
Audit fee	43,118
Custodian fee	94,595
Insurance expense	59,389
Legal fees	265,734
NYSE fee	169,891
Shareholder communication expenses	260,630
Transfer agent fees	107,117
Trustees' fees and expenses	220,836
Miscellaneous expenses	104,176
Total Expenses Before Reimbursement	10,490,850
Less expenses reimbursed by Portfolio Managers	(82,264)

TOTAL EXPENSES	10,408,586
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NET INVESTMENT INCOME	7,018,212
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REALIZED AND UNREALIZED GAIN ON INVESTMENTS:

Net realized gain on investment transactions	52,769,463
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Net change in unrealized appreciation on investments	65,625,618
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NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	118,395,081
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NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 125,413,293
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See Notes to Financial Statements

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STATEMENTS OF CHANGES IN NET ASSETS

	<u>Year Ended December 31,</u>	
	2012	2011
FROM OPERATIONS:		
Net investment income	\$ 7,018,212	\$ 3,277,203
Net realized gain on investment transactions	52,769,463	43,387,408
Net change in unrealized appreciation/(depreciation) on investments	65,625,618	(111,570,483)
Net Increase/(Decrease) in Net Assets From Operations	125,413,293	(64,905,872)
DISTRIBUTIONS TO SHAREHOLDERS:		
From net investment income	(58,551,924)	(46,724,626)
Tax return of capital		(15,385,921)
Total Distributions	(58,551,924)	(62,110,547)
CAPITAL SHARE TRANSACTIONS:		
Dividend reinvestments	12,454,693	
Net Increase/(Decrease) in Net Assets	79,316,062	(127,016,419)
NET ASSETS:		
Beginning of year	911,810,424	1,038,826,843
End of year (Includes overdistributed net investment income of \$(7,867,739) and \$0, respectively)	\$ 991,126,486	\$ 911,810,424

See Notes to Financial Statements

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FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2012	2011	2010	2009	2008
PER SHARE OPERATING PERFORMANCE:					
Net asset value at beginning of year	\$ 4.99	\$ 5.69	\$ 5.23	\$ 4.21	\$ 8.07
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income ^(a)	0.04	0.02	0.00 ^(b)	0.02	0.07
Net realized and unrealized gain/(loss) on investments	0.64	(0.38)	0.77	1.31	(3.28)
Total from Investment Operations	0.68	(0.36)	0.77	1.33	(3.21)
LESS DISTRIBUTIONS TO SHAREHOLDERS:					
Net investment income	(0.32)	(0.26)	(0.24)	(0.02)	(0.07)
Tax return of capital		(0.08)	(0.07)	(0.29)	(0.58)
Total Distributions	(0.32)	(0.34)	(0.31)	(0.31)	(0.65)
Net asset value at end of year	\$ 5.35	\$ 4.99	\$ 5.69	\$ 5.23	\$ 4.21
Market price at end of year	\$ 4.77	\$ 4.22	\$ 4.93	\$ 4.33	\$ 3.50
TOTAL INVESTMENT RETURN FOR SHAREHOLDERS:^(c)					
Based on net asset value	14.7%	(5.8%)	16.3%	35.7%	(41.2%)
Based on market price	20.9%	(8.1%)	21.7%	35.1%	(44.0%)
RATIOS AND SUPPLEMENTAL DATA:					
Net assets at end of year (millions)	\$ 991	\$ 912	\$ 1,039	\$ 956	\$ 752
Ratio of expenses to average net assets after reimbursement	1.07%				
Ratio of expenses to average net assets before reimbursement	1.08%	1.05%	1.08%	1.09%	1.01%
Ratio of net investment income to average net assets	0.72%	0.33%	0.08%	0.38%	1.05%
Portfolio turnover rate	45%	48%	52%	89%	87%

^(a) Calculated using average shares outstanding during the period.^(b) Less than \$0.005 per share.^(c) Calculated assuming all distributions are reinvested at actual reinvestment prices. The net asset value and market price returns will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares traded during the period. Past performance is not a guarantee of future results.

See Notes to Financial Statements

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LIBERTY ALL-STAR® EQUITY FUND

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NOTES TO FINANCIAL STATEMENTS

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NOTE 1. ORGANIZATION

Liberty All-Star® Equity Fund (the Fund) is a Massachusetts business trust registered under the Investment Company Act of 1940 (the Act), as amended, as a diversified, closed-end management investment company.

Investment Goal

The Fund seeks total investment return comprised of long-term capital appreciation and current income through investing primarily in a diversified portfolio of equity securities.

Fund Shares

The Fund may issue an unlimited number of shares of beneficial interest.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

Security Valuation

Equity securities including common stocks and exchange traded funds are valued at the last sale price at the close of the principal exchange on which they trade, except for securities listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) exchange, which are valued at the NASDAQ official closing price. Unlisted securities or listed securities for which there were no sales during the day are valued at the closing bid price on such exchanges or over-the-counter markets.

Debt securities generally are valued by pricing services approved by the Fund's Board of Trustees (the Board). The services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. Debt securities for which quotations are readily available are valued at an over-the-counter or exchange bid quotation.

Short-term debt obligations maturing in more than 60 days for which market quotations are readily available are valued at current market value. Short-term debt obligations maturing within 60 days are valued at amortized cost, which approximates market value.

Investments for which market quotations are not readily available are valued at fair value as determined in good

faith under consistently applied procedures approved by and under the general supervision of the Board.

Foreign Securities

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The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible reevaluation of currencies, the inability to repatriate foreign currency, less complete financial information about companies and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. issuers. For the year ended December 31, 2012, the Fund only held American Depositary Receipts and did not hold any securities denominated in foreign currencies.

Security Transactions

Security transactions are recorded on trade date. Cost is determined and gains/(losses) are based upon the specific identification method for both financial statement and federal income tax purposes.

Repurchase Agreements

The Fund engages in repurchase agreement transactions with institutions that the Fund's investment advisor has determined are creditworthy. The Fund, through its custodian, receives delivery of underlying securities collateralizing a repurchase agreement. Collateral is at least equal, at all times, to the value of the repurchase obligation including interest. A repurchase agreement transaction involves certain risks in the event of default or insolvency of the counterparty. These risks include possible delays or restrictions upon a Fund's ability to dispose of the underlying securities and a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights.

Income Recognition

Interest income is recorded on the accrual basis. Premiums and discounts are amortized and accreted, respectively, on all debt securities. Corporate actions and dividend income are recorded on the ex-date.

The Fund estimates components of distributions from real estate investment trusts (REITs). Distributions received in excess of income are recorded as a reduction of the cost of the related investments. Once the REIT reports annually the tax character of its distributions, the Fund revises its estimates. If the Fund no longer owns the applicable securities, any distributions received in excess of income are recorded as realized gains.

Fair Value Measurements

The Fund discloses the classification of its fair value measurements following a three-tier hierarchy based on

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LIBERTY ALL-STAR® EQUITY FUND

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

the inputs used to measure fair value. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability that are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability that are developed based on the best information available.

Various inputs are used in determining the value of the Fund's investments as of the end of the reporting period.

When inputs used fall into different levels of the fair value hierarchy, the level in the hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The designated input levels are not necessarily an indication of the risk or liquidity associated with these investments. These inputs are categorized in the following hierarchy under applicable financial accounting standards:

Level 1 Unadjusted quoted prices in active markets for identical investments, unrestricted assets or liabilities that a Fund has the ability to access at the measurement date;

Level 2 Quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and

Level 3 Significant unobservable prices or inputs (including the Fund's own assumptions in determining the fair value of investments) where there is little or no market activity for the asset or liability at the measurement date.

The following is a summary of the inputs used to value the Fund's investments as of December 31, 2012. The Fund recognizes transfers between the levels as of the beginning of the annual period in which the transfer occurred.

Investments in Securities at Value*	Valuation inputs			Total
	Level	Level	Level	
	1	2	3	
Common Stocks	\$ 977,070,455	\$ 20,448,000	\$	\$ 977,070,455
Short-Term Investment		20,448,000		20,448,000
TOTAL	\$ 977,070,455	\$ 20,448,000	\$	\$ 997,518,455

* See Schedule of Investments for industry classification.

For the year ended December 31, 2012, the Fund did not have any transfers between Level 1 and Level 2 securities. The Fund did not have any securities which used significant unobservable inputs (Level 3) in determining fair value during the year.

Distributions to Shareholders

The Fund currently has a policy of paying distributions on its shares of beneficial interest totaling approximately 6% of its net asset value per year. The distributions are payable in four quarterly distributions of 1.5% of the Fund's net asset value at the close of the NYSE on the Friday prior to each quarterly declaration date. Distributions to shareholders are recorded on ex-date.

NOTE 3. FEDERAL TAX INFORMATION AND TAX BASIS INFORMATION

The timing and character of income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP. Reclassifications are made to the Fund's capital accounts for permanent tax differences to reflect income and gains available for distribution (or available capital loss carryforwards) under income tax regulations. 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. For the year ended December 31, 2012, permanent book and tax basis differences resulting primarily from excess distributions were identified and reclassified among the components of the Fund's net assets as follows:

Accumulated

Net Investment

Income

\$43,665,973

Accumulated Net

Realized Gain

\$

Paid-In Capital

\$(43,665,973)

Net investment income and net realized gains/(losses), as disclosed on the Statement of Operations, and net assets were not affected by this reclassification.

Classification of Distributions to Shareholders

Net investment income and net realized gain/(loss) may differ for financial statement and tax purposes. The character of distributions made during the year from net investment income or net realized gains may differ from its ultimate characterization for federal income tax purposes. The amounts and characteristics of tax basis distributions and composition of distributable earnings/(accumulated

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December 31, 2012

losses) are finalized at fiscal year-end. Also, due to the timing of dividend distributions, the fiscal year in which amounts are distributed may differ from the fiscal year in which the income or realized gain was recorded by the Fund.

The tax character of distributions paid during the years ended December 31, 2012 and December 31, 2011 were as follows:

	12/31/12	12/31/11
Distributions paid from:		
Ordinary income	\$ 58,551,924	\$ 46,724,626
Tax return of capital	0	15,385,921
	\$ 58,551,924	\$ 62,110,547

The following capital loss carryforwards are available to reduce taxable income arising from future net realized gains on investments, if any to the extent permitted by the Internal Revenue Code:

Year of Expiration	Capital Loss Carryforward
2017	\$ 92,639,875

The Fund used capital loss carry forwards of \$56,895,583 to offset taxable capital gains during the year ended December 31, 2012.

Future realized gains offset by the loss carryforwards are not required to be distributed to shareholders. However, under the Fund's distribution policy, such gains may be distributed to shareholders in the year the gains are realized. Any such gains distributed may be taxable to shareholders as ordinary income.

As of December 31, 2012, the components of distributable earnings on a tax basis were as follows:

Accumulated Capital Losses	Net Unrealized Appreciation	Other Cumulative Effect of Timing Differences	Total
\$(97,301,729)	\$ 10,271,085	\$ (7,867,739)	\$ (94,898,383)

The differences between book-basis and tax-basis are primarily due to deferral of losses from wash sales and the differing treatment of certain other investments.

As of December 31, 2012, the costs of investments for federal income tax purposes and accumulated net unrealized appreciation/(depreciation) on investments were as follows:

Cost of Investments	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation
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	(excess of value over tax cost)	(excess of tax cost over value)	
\$987,247,370	\$149,770,604	\$(139,499,519)	\$10,271,085
The fund elects to defer to the fiscal year ending December 31, 2013, capital losses recognized during the period from November 1, 2012 to December 31, 2012 in the amount of \$4,661,854.			

Federal Income Tax Status

For federal income tax purposes, the Fund currently qualifies, and intends to remain qualified, as a regulated investment company under the provisions of Subchapter M of the Internal Revenue Code of 1986, as amended, by distributing substantially all of its investment company taxable net income including realized gain, not offset by capital loss carryforwards, if any, to its shareholders. Accordingly, no provision for federal income or excise taxes has been made.

Management of the Fund analyzes all open tax years, as defined by the Statute of Limitations, for all major jurisdictions, including federal tax authorities and certain state tax authorities. As of and during the fiscal year ended December 31, 2012, the Fund did not have a liability for any unrecognized tax benefits. The Fund will file income tax returns in the U.S. federal jurisdiction and Colorado. For the years ended December 31, 2009 through December 31, 2012 for the federal jurisdiction and for the years ended December 31, 2008 through December 31, 2012 for Colorado, the Fund's returns are still open to examination by the appropriate taxing authority.

NOTE 4. FEES AND COMPENSATION PAID TO AFFILIATES

Investment Advisory Fee

ALPS Advisors, Inc. (AAI) serves as the investment advisor to the Fund. AAI receives a monthly investment advisory fee based on the Fund's average daily net assets at the following annual rates:

Average Daily Net Assets	Annual Fee Rate
First \$400 million	0.800%
Next \$400 million	0.720%
Next \$400 million	0.648%
Over \$1.2 billion	0.584%

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AAI retains multiple Portfolio Managers to manage the Fund's investments in various asset classes. AAI pays each Portfolio Manager a portfolio management fee based on the assets of the investment portfolio that they managed. The portfolio management fee is paid from the investment advisory fees collected by AAI and is based on the Fund's average daily net assets at the following annual rates:

Average Daily	Annual
Net Assets	Fee Rate
First \$400 million	0.400%
Next \$400 million	0.360%
Next \$400 million	0.324%
Over \$1.2 billion	0.292%

Administration, Bookkeeping and Pricing Services Agreement

ALPS Fund Services, Inc. (ALPS) provides administrative and other services to the Fund for a monthly administration fee based on the Fund's average daily net assets at the following annual rates:

Average Daily	Annual
Net Assets	Fee Rate
First \$400 million	0.200%
Next \$400 million	0.180%
Next \$400 million	0.162%
Over \$1.2 billion	0.146%

In addition, ALPS provides bookkeeping and pricing services to the Fund for an annual fee consisting of: (i) \$38,000 paid monthly plus 0.015% on the average daily net assets for the month; and (ii) a multi-manager fee based on the number of portfolio managers; provided that during any 12-month period, the aggregate amount of (i) shall not exceed \$140,000 (exclusive of out-of-pocket expenses and charges). The Fund also reimburses ALPS for out-of-pocket expenses and charges, including fees payable to third parties for pricing the Fund's portfolio securities and direct internal costs incurred by ALPS in connection with providing fund accounting oversight and monitoring and certain other services.

On December 20, 2012, a special meeting of shareholders was held to approve new Portfolio Management Agreements with TCW Investment Management Company (TCW) and Cornerstone Capital Management LLC (Cornerstone), which was necessitated by a change in control of TCW and Cornerstone. TCW and Cornerstone agreed to bear the expenses, including proxy solicitation expenses, incurred by the Fund in connection with obtaining approval for the new agreements. The amounts to be paid by TCW and Cornerstone are reflected as expenses reimbursed by Portfolio Managers on the statement of operations.

Fees Paid to Officers

All officers of the Fund, including the Fund's Chief Compliance Officer, are employees of AAI or its affiliates, and receive no compensation from the Fund. The Board of Trustees has appointed a Chief Compliance Officer to the Fund in accordance with federal securities regulations.

NOTE 5. PORTFOLIO INFORMATION**Purchases and Sales of Securities**

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For the year ended December 31, 2012, the cost of purchases and proceeds from sales of securities, excluding short-term obligations, were \$426,300,469 and \$465,861,151, respectively.

NOTE 6. CAPITAL TRANSACTIONS

During the year ended December 31, 2012, distributions in the amount of \$12,454,693 were paid in newly issued shares valued at market value or net asset value, but not less than 95% of market value. Such distributions resulted in the issuance of 2,639,269 shares.

Under the Fund's Automatic Dividend Reinvestment and Direct Purchase Plan (the Plan), shareholders automatically participate and have all their Fund dividends and distributions reinvested. Under the Plan, all dividends and distributions will be reinvested in additional shares of the Fund. Distributions declared payable in cash will be reinvested for the accounts of participants in the Plan in additional shares purchased by the Plan Agent on the open market at prevailing market prices, subject to certain limitations as described more fully in the Plan. Distributions declared payable in shares are paid to participants in the Plan entirely in newly issued full and fractional shares valued at the lower of market value or net asset value per share on the valuation date for the distribution (but not at a discount of more than 5 percent from market price). Dividends and distributions are subject to taxation, whether received in cash or in shares.

NOTE 7. INDEMNIFICATION

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnities. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims against the Fund. Also, under the Fund's organizational documents and by contract, the Trustees and Officers of the Fund are indemnified against certain liabilities that may arise out of their duties to the Fund. However, based on experience, the Fund expects the risk of loss due to these warranties and indemnities to be minimal.

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LIBERTY ALL-STAR® EQUITY FUND

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF TRUSTEES AND SHAREHOLDERS OF LIBERTY ALL-STAR® EQUITY FUND:

We have audited the accompanying statement of assets and liabilities of Liberty All-Star® Equity Fund (the Fund), including the schedule of investments, as of December 31, 2012, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2012, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Liberty All-Star® Equity Fund, as of December 31, 2012, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Denver, Colorado

February 21, 2013

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AUTOMATIC DIVIDEND REINVESTMENT AND DIRECT PURCHASE PLAN (UNAUDITED)

Under the Fund's Automatic Dividend Reinvestment and Direct Purchase Plan (the Plan), shareholders automatically participate and have all their Fund dividends and distributions reinvested by Computershare Trust Company, N.A., as agent for participants in the Plan (the Plan Agent), in additional shares of the Fund. For further information, call Investor Assistance at 1-800-LIB-FUND (1-800-542-3863) weekdays between 9 a.m. and 5 p.m. Eastern Time.

Shareholders whose shares are held in the name of a brokerage firm, bank or other nominee can participate in the Plan only if their brokerage firm, bank or nominee is able to do so on their behalf. Shareholders participating in the Plan through a brokerage firm may not be able to transfer their shares to another brokerage firm and continue to participate in the Plan.

Under the Plan, all dividends and distributions will be reinvested in additional shares of the Fund. Distributions declared payable in cash will be reinvested for the accounts of participants in the Plan in additional shares purchased by the Plan Agent on the open market at prevailing market prices. If, prior to the Plan Agent's completion of such open market purchases, the market price of a share plus estimated brokerage commissions exceeds the net asset value, the remainder of the distribution will be paid in newly issued shares valued at net asset value (but not at a discount of more than 5% from market price). Distributions declared payable in shares (or cash at the option of shareholders) are paid to participants in the Plan entirely in newly issued full and fractional shares valued at the lower of market value or net asset value per share on the valuation date for the distribution (but not at a discount of more than 5 percent from market price). Dividends and distributions are subject to taxation, whether received in cash or in shares.

Plan participants have the option of making additional investments of \$100 or more on a monthly basis up to a maximum of \$120,000 in a calendar year. These direct purchases will be invested on or shortly after the 15th of each month and direct purchases should be sent so as to be received by the Plan Agent at least two business days prior to the next investment date. Barring suspension of trading, direct purchases will be invested within 35 days after such date. Alternatively, participants can authorize an automatic monthly deduction from a checking or savings account at a U.S. bank or other financial institution. A participant may withdraw a direct purchase by written notice received by the Plan Agent at least two business days before such payment is to be invested.

The Plan Agent maintains all shareholder accounts in the Plan and furnishes confirmations of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent in book-entry or noncertificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan.

There is no charge to participants for reinvesting distributions pursuant to the Plan. The Plan Agent's fees are paid by the Fund, therefore indirectly by shareholders. There are no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or distributions declared payable in shares. However, each participant bears a per share fee (which includes any brokerage commissions the Plan Agent is required to pay) incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of distributions declared payable in cash.

With respect to direct purchases, the Plan Agent will charge \$1.25 for purchase by check and \$2.00 for automatic investment transactions, plus a per share fee (which includes any brokerage commissions the Plan Agent is required to pay). Sales of shares held in the Plan will also be subject to a service fee of \$2.50 and a per share fee currently \$0.10. All fees described in this summary are subject to change. Please contact the Plan Agent for the current fees.

Shareholders may terminate their participation in the Plan by notifying the Plan Agent by telephone, through the Internet or in writing. Such termination will be effective immediately if notice is received by The Plan Agent prior to any dividend record date and all subsequent dividends and distributions will be paid in cash instead of shares.

The Fund reserves the right to amend or terminate the Plan.

The full text of the Plan may be found on the Fund's website at www.all-starfunds.com.

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TAX INFORMATION (UNAUDITED)

All 2012 distributions whether received in cash or shares of the Fund consist of the following:

- (1) ordinary dividends, and
- (2) return of capital

The table below details the breakdown of each 2012 distribution for federal income tax purposes.

TAX STATUS OF 2012 DISTRIBUTIONS

RECORD DATE	PAYABLE DATE	AMOUNT PER SHARE	TOTAL ORDINARY DIVIDENDS		LONG-TERM	RETURN OF CAPITAL
			QUALIFIED	NON-QUALIFIED	CAPITAL GAINS	
12/16/11*	01/03/12	\$0.08	10.88%	87.01%		2.11%
02/24/12	03/12/12	\$0.08	10.88%	87.01%		2.11%
05/25/12	06/11/12	\$0.08	10.88%	87.01%		2.11%
08/03/12	09/17/12	\$0.08	10.88%	87.01%		2.11%
11/02/12	01/02/13	\$0.037209	10.88%	87.01%		2.11%
11/02/12**	01/02/13	\$0.042791				

* Pursuant to Section 852 of the Internal Revenue Code, the taxability of this distribution will be reported in the Form 1099-DIV for 2012.

** Pursuant to Section 852 of the Internal Revenue Code, the taxability of this portion of the distribution will be reported in the Form 1099-DIV for 2013.

ADDITIONAL INFORMATION (UNAUDITED)**Tax Designations**

The Fund designates the following as a percentage of taxable ordinary income distributions for the calendar year ended December 31, 2012:

Qualified Dividend Income	11.11%
Dividend Received Deduction	11.05%

DESCRIPTION OF LIPPER BENCHMARK AND MARKET INDICES (UNAUDITED)**Lipper Large-Cap Core Mutual Fund Average**

The average of funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) above Lipper's U.S. domestic equity large-cap floor. These funds typically have an average price-to-earnings ratio, price-to-book ratio, and three-year sales-per-share growth value, compared to the S&P 500® Index.

Dow Jones Industrial Average

A price-weighted measure of 30 U.S. blue-chip companies.

NASDAQ Composite Index

Measures all NASDAQ domestic and international based common type stocks listed on the NASDAQ Stock Market.

S&P 500® Index

A representative sample of 500 leading companies in leading industries of the U.S. economy. Focuses on the large-cap segment of the market with approximately 75% coverage of U.S. equities. You cannot invest directly in an index.

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TRUSTEES AND OFFICERS (UNAUDITED)

The names of the Trustees and Officers of the Liberty All-Star® Equity Fund, the date each was first elected or appointed to office, their term of office, their principal business occupations and other directorships they have held during at least the last five years, are shown below.

INDEPENDENT TRUSTEES

NAME AND ADDRESS*	POSITION WITH EQUITY FUND, LENGTH OF SERVICE AND TERM OF OFFICE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY DIRECTOR	OTHER DIRECTORSHIPS HELD
John A. Benning (Age 78)	Trustee Since 2002; Term expires 2012	Retired (since December 1999)	2	Director, Liberty All-Star Growth Fund (since 2002).
Thomas W. Brock (Age 65)	Trustee Since 2005; Term expires 2014	Former CEO, StoneHarbor Investment Partners LP (April, 2006-2012); Adjunct Professor, Columbia University Graduate School of Business (1998-2006).	2	Director, Liberty All-Star Growth Fund (since 2005); Trustee and Chairman, Stone Harbor Investment Funds (2007-2012).
George R. Gaspari (Age 72)	Trustee Since 2006, Term Expires 2014	Financial Services Consultant (since 1996)	2	Trustee and Chairman, The Select Sector SPDR Trust (since 1999); Director, Liberty All-Star Growth Fund (since 2006).
Richard W. Lowry (Age 76)	Trustee Since 1986; Term Expires 2013; Chairman since 2004	Private Investor (since 1987)	2	Director and Chairman, Liberty All-Star Growth Fund (since 1994).
John J. Neuhauser	Trustee Since 1998;		2	

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(Age 69)	Term Expires 2013	President, St. Michael's College (since August 2007); University Professor (December 2005-2007), Boston College (formerly Academic Vice President and Dean of Faculties, from August 1999 to December 2005, Boston College).		Director, Liberty All-Star Growth Fund (since 1998); Trustee, Columbia Funds Series Trust I (66 funds).
Richard C. Rantzow (Age 74)	Trustee Since 2006, Term expires 2013	Retired; Chairman of the Board of First Funds (from 1992 to July 2006)	2	Director, Clough Global Allocation Fund (since 2004), Clough Global Equity Fund (since 2005) and Clough Global Opportunities Fund (since 2006); Director, Liberty All-Star Growth Fund (since 2006).

* The address for all Directors and Officers is: c/o ALPS Fund Services, Inc., 1290 Broadway, Suite 1100; Denver, CO 80203.

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TRUSTEES AND OFFICERS (UNAUDITED)**INTERESTED TRUSTEE**

NAME AND ADDRESS*	POSITION WITH EQUITY FUND, LENGTH OF SERVICE AND TERM OF OFFICE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX	OTHER
			DIRECTOR	DIRECTORSHIPS HELD
Edmund J. Burke (Age 52)**	Trustee Since 2006; Term expires 2012	President of ALPS, a DST Company since November 2011. CEO and a Director of ALPS Holdings, Inc. (since 2005); Director, ALPS Advisors (since 2001), ALPS Distributors, Inc. (since 2000) and ALPS (since 2000); President and a Director of ALPS Financial Services, Inc. (1991-2005).	2	President (since 2006), Trustee and Chairman (since 2009), Financial Investors Trust; Trustee and President, Clough Global Allocation Fund (Trustee since 2006, President since 2004); Trustee and President, Clough Global Equity Fund (Trustee since 2006, President since 2005); Trustee and President Clough Global Opportunities Fund (since 2006); Director, Liberty All-Star Growth Fund (since 2006); formerly, President Reaves Utility Income Fund and Financial Investors Variable Insurance Trust.

OFFICERS

NAME AND ADDRESS*	POSITION WITH EQUITY FUND	YEAR FIRST ELECTED OR APPOINTED TO OFFICE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS
William R. Parmentier, Jr. (Age 60)	President	1999	Chief Investment Officer, ALPS Advisors, Inc. (since 2006); President and Chief Executive Officer of the Liberty All-Star Funds (since April 1999); Senior Vice President (2005-2006), Banc of America Investment Advisors, Inc.
Mark T. Haley, CFA (Age 48)	Senior Vice President	1999	Senior Vice President of the Liberty All-Star Funds (Since January 1999). Vice President, ALPS Advisors, Inc. (since 2006); Vice President, Banc of America Investment

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Advisors

(1999-2006).

Edmund J. Burke (Age 52)	Vice President	2006	President of ALPS, a DST Company since November 2011. CEO and a Director of ALPS Holdings, Inc. (since 2005); Director, ALPS Advisors (since 2001), ALPS Distributors, Inc. (since 2000) and ALPS (since 2000); President and a Director of ALPS Financial Services, Inc. (1991-2005).
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* The address for all Directors and Officers is: c/o ALPS Fund Services, Inc., 1290 Broadway, Suite 1100; Denver, CO 80203.

** Mr. Burke is an interested person of the Fund as defined in the Investment Company Act, because he is an officer of ALPS and ALPS Advisors.

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TRUSTEES AND OFFICERS (UNAUDITED)**OFFICERS (continued)**

NAME AND ADDRESS*	POSITION WITH GROWTH FUND	YEAR FIRST ELECTED OR APPOINTED TO OFFICE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS
Jeremy O. May (Age 42)	Treasurer	2006	President and Director of ALPS Fund Services, Inc. Mr. May joined ALPS in 1995. Because of his position with ALPS, Mr. May is deemed an affiliate of the Fund as defined under the 1940 Act. Mr. May is currently a Director of Reaves Utility Income Fund and Treasurer of Liberty All-Star Growth Fund, Clough Global Equity Fund, Clough Global Allocation Fund, Clough Global Opportunities Fund, Financial Investors Trust, and Financial Investors Variable Insurance Trust. Mr. May is also on the Board of Directors of the University of Colorado Foundation.
Kimberly R. Storms (Age 40)	Assistant Treasurer	2006	Director of Fund Administration and Senior Vice-President of ALPS Fund Services, Inc. Ms. Storms joined ALPS in 1998. Because of her position with ALPS, Ms. Storms is deemed an affiliate of the Fund as defined under the 1940 Act. Ms. Storms is also Assistant Treasurer of the Liberty All-Star Growth Fund, and Financial Investors Trust and Assistant Secretary of Ameristock Mutual Fund, Inc. She is Treasurer of ALPS ETF Trust and BPV Family of Funds. Ms. Storms is also Chief Financial Officer for the Arbitrage Funds. Ms. Storms was previously Assistant Treasurer of the Clough Global Equity, Clough Global Allocation, Clough Global Opportunities and Reaves Utility Income Funds. Ms. Storms is also on the Board of Directors of the Denver Center for Crime Victims.
Melanie H. Zimdars (Age 36)	Chief Compliance Officer	2009	Deputy Chief Compliance Officer with ALPS Fund Services, Inc. since September 2009. Principal Financial Officer, Treasurer and Secretary, Wasatch Funds, February 2007 to December 2008 and the Liberty All-Star Growth Fund since 2011. Assistant Treasurer, Wasatch Funds, November 2006 to February 2007. Senior Compliance Officer, Wasatch Advisors, Inc., 2005 to 2008. Ms. Zimdars is currently the CCO for Liberty All-Star Growth Fund, Financial Investors Variable Insurance Trust, ALPS ETF Trust, EGA Emerging Global Shares Trust and BPV Family

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of Funds.

Tané T. Tyler (Age 47)	Secretary	2011	Senior Vice President, General Counsel and Assistant Secretary of ALPS Holdings, Inc.; ALPS Advisors, Inc.; ALPS Distributors, Inc. and ALPS Fund Services, Inc. Ms. Tyler joined ALPS in 2004. She also serves as Secretary of the ALPS ETF Trust since December 2008. She also served as Secretary, Liberty All-Star Equity Fund and Liberty All-Star Growth Fund from December 2006-2008; Secretary, Reaves Utility Income Fund from December 2004 - 2007; Secretary, Westcore Funds from February 2005 - 2007; Secretary, First Funds from November 2004 to January 2007; Secretary, Financial Investors Variable Insurance Trust from December 2004 - December 2006. She was previously Vice President and Associate Counsel, Oppenheimer Funds from January 2004 to August 2004 and Vice President and Assistant General Counsel, INVESCO Funds from September 1991 to December 2003.
Alex J. Marks (Age 38)	Assistant Secretary	2011	Employee of ALPS Fund Services, Inc. since June 2011. Mr. Marks also serves as the Assistant Secretary of the Liberty All-Star Growth Fund. Mr. Marks was previously Secretary of the Financial Investors Variable Insurance Trust from December 2008 to June 2010.

*The address for all Officers is: c/o ALPS Fund Services, Inc., 1290 Broadway, Suite 1100; Denver, CO 80203.

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RESULTS OF SHAREHOLDER MEETING (UNAUDITED)

A Special Meeting of shareholders of the Liberty All-Star Equity Fund (the Fund) was held on December 20, 2012 (the Meeting). On October 10, 2012, the record date of the Meeting, the Fund had outstanding 183,864,812 shares of common stock. At the Meeting, the following matters were voted on and approved by the shareholders. The results of the Special Meeting of shareholders are noted below.

PROPOSAL 1 - To approve a new Portfolio Management Agreement for the Fund with ALPS Advisors, Inc. and TCW investment Management Company.

NUMBER OF VOTES	
PORTFOLIO MANAGER	TOTAL RECORD DATE VOTES