

LIBERTY ALL STAR EQUITY FUND  
Form N-CSR  
March 01, 2016

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act File No.: 811-04809

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

1290 Broadway, Suite 1100, Denver, Colorado 80203  
(Address of principal executive offices) (Zip code)

Alex Marks  
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, 2015

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Item 1. Report of Shareholders.

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A SINGLE INVESTMENT

A DIVERSIFIED CORE PORTFOLIO

A single fund that offers:

- A diversified, multi-managed portfolio of growth and value stocks
- Exposure to many of the industries that make the U.S. economy 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 closed-end fund listed on the New York Stock Exchange (ticker symbol: USA)

LIBERTY ALL-STAR<sup>®</sup> 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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Liberty All-Star® Equity Fund President's Letter

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(Unaudited)

Fellow Shareholders: February 2016

Although equity returns were flattish for 2015, market action throughout the year was anything but calm. Periodic downdrafts roiled markets at various times in all four quarters, with the net result being the poorest year since 2008 for U.S. stocks overall.

The S&P 500® Index returned 1.38 percent, ending three years of double-digit gains, while the widely-followed Dow Jones Industrial Average returned 0.21 percent. The best performance was turned in by the technology-focused NASDAQ Composite Index, which gained 6.96 percent. Six of the 10 sectors in the S&P 500® posted losses for the year, with energy being the laggard at a decline of 21 percent. These key market metrics saved their best for last in 2015, posting their greatest advance in the fourth quarter, buoyed in particular by a strong month in October. That followed the weakest period, the third quarter, when all three indices declined in a range of 6 – 7 percent.

Investors scanning the world for indicators of future equity market conditions found more cause for concern than comfort in 2015 the U.S. was the safest port in the storm, but was not without its own choppiness.

Investors scanning the world for indicators of future equity market conditions found more cause for concern than comfort in 2015. A leading source of worry was the sharp decline in energy prices, continuing a trend that, for crude oil, started in mid-year 2014. The domestic benchmark, West Texas Intermediate (WTI) crude, closed 2015 at \$37 per barrel versus \$94 per barrel in July 2014. Increasing supply as a result of the U.S. “energy revolution,” Saudi reluctance to limit production and the strong U.S. dollar all contributed to oil’s precipitous decline in price. Softer demand affected iron ore, copper and other metals as well. This accounted for a good portion of the weakness in emerging markets. In some emerging markets—like Brazil and Russia—energy and natural resources represent a significant portion of the economy.

Another source of worry was China, where reported nominal GDP has fallen into the 6 percent range from 12 percent a few years ago. China surprised financial markets on August 11 by announcing a devaluation of its currency. Its subsequent attempts to intervene and settle its own highly volatile stock market only served to heighten fears that its leadership was losing control of the world’s second-largest economy. Worries over China were reflected in a 6.03 percent decline in the S&P 500® during August, the index’s worst monthly performance in more than three years.

The geopolitical situation also served to keep investors on edge. Ongoing conflict in the Middle East was a source of headlines on a daily basis. But there was also fighting in Ukraine in the wake of Russia’s seizure of Crimea in late 2014; the massive influx of refugees across much of Western Europe; and Greece very nearly withdrawing from the Eurozone.

While the U.S. was the safest port in the storm, it was not without its own choppiness. There were three sources of concern: lackluster corporate earnings, modest economic growth and the increasing likelihood that the Federal Reserve Board would raise short-term interest rates. To the latter point, after months of speculation, the Fed finally ended the suspense in December with a 0.25 percent increase in the fed funds rate. As to economic expansion, sequential GDP growth through the first three quarters of the year was -0.2 percent, 3.9 percent and 2.0 percent. Preliminary data from the Commerce Department indicated that the domestic economy grew at a 0.7 percent annual rate in the fourth quarter of 2015. Like the first quarter of 2014, the negative 1Q15 GDP could be traced to an extremely harsh winter (exacerbated by a rising U.S. dollar and a West Coast port labor dispute). There were positive offsets to these factors, however. Perhaps the brightest spot was jobs, which showed solid growth throughout the year, including 307,000 new jobs in October, 252,000 in November and 262,000 in December as the unemployment rate

dipped to 5.0 percent. Wages also rose, albeit modestly. Auto sales were another bright spot, as was consumer spending in general. In June, new home sales surged to a seven-year high, but this volatile metric weakened for the balance of the year. And inflation as measured by the consumer price index remained muted, rising just 0.7 over the trailing 12 months as of December. Low oil prices were a double-edge sword: good for consumers, but bad for industrial companies supplying capital equipment to the oil and gas industries.

Liberty All-Star® Equity Fund President's Letter

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(Unaudited)

Liberty All-Star® Equity Fund

For the full year, Liberty All-Star® Equity Fund marginally underperformed key benchmarks, while moderately outperforming in the fourth quarter. For the year, the Fund returned -1.01 percent with shares valued at net asset value (NAV) with dividends reinvested and -1.98 percent with shares valued at market price with dividends reinvested. (Fund returns are net of expenses.) For the same period, the Lipper Large-Cap Core Mutual Fund Average returned -0.56 percent. As mentioned, for the year the S&P 500®, the Dow Jones Industrial Average and the NASDAQ Composite Index returned 1.38 percent, 0.21 percent and 6.96, respectively. Compared with 2014, the discount at which Fund shares traded relative to their underlying NAV widened, ranging from a low of -11.8 percent to a high of -16.2 percent.

The Fund's fourth quarter NAV results rank in the top quartile of the Lipper Large Cap Core peer group, returning 7.22 percent with shares valued at NAV with dividends reinvested and 7.99 percent with shares valued at market price with dividends reinvested. The Lipper Large-Cap Core Mutual Fund Average returned 6.00 percent for this period. The S&P 500® gained 7.04 percent for the quarter, while the Dow Jones Industrial Average advanced 7.70 percent. The best performance was NASDAQ Composite's return of 8.71 percent.

Once again in 2015, the growth investment style outperformed the value style. To that point, the Russell 1000® Growth Index returned 5.67 percent for the year, while the Russell 1000® Value Index returned -3.83 percent. This detracted from Fund performance for the year, as three of the Fund's five managers practice the value style. In addition, some of the value managers focused on deep value, cyclical equities, including a number in the energy sector, which, as noted, suffered throughout the year from declining prices for crude oil and natural gas. Fund management chose to replace two of the value managers during the second half, bringing in Delaware Investments as a manager in September and Aristotle Capital in December. The transition to the two new managers went smoothly, as evidenced by the Fund's good fourth quarter performance.

Fund distributions totaled \$0.51 per share in 2015. As shareholders may recall, the Fund's distribution policy has been in place since 1988 and is a major component of the Fund's total return. These distributions add up to \$25.17 since 1987 (the Fund's first full calendar year of operations). We continue to emphasize that shareholders should include these distributions when determining the return on their investment in the Fund.

One of the key principles on which the Fund was founded is multi-management, or the practice of allocating the Fund's assets to carefully selected investment managers representing both value and growth styles of investing. Thus, we are once again offering insights into the managers' thinking through our annual roundtable question-and-answer exchange, and invite shareholders to read the managers' comments.

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

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Liberty All-Star® Equity Fund President's Letter

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(Unaudited)

On December 3, 2015 Richard Lowry retired as Chairman of the Board of Trustees. Mr. Lowry was a founding member of the Board when the Fund was launched back in October 1986. He deserves special mention not only because of his long association with the Fund - but also for his enthusiastic support and dedication to the Fund's founding principles for all those years. His guidance and expertise will be missed and we wish him all the best. Thomas Brock who has been a member of the Board since 2005 will succeed Mr. Lowry as your new Chairman. We congratulate and welcome him as the Fund's new Chair and shareholders will be well served by his vast experience in the investment management industry.

As investors are well aware, the volatility that characterized 2015 continued and even greatly heightened as 2016 opened, the concerns being much the same as described in this letter. This is a painful situation for all investors, but we find a small degree of comfort in our recent decision to replace two managers and thus mitigate some of the volatility that has impacted deep cyclical stocks. These decisions underscore a pledge that we have made consistently over many years to our shareholders: That we will remain vigilant, disciplined and focused on our objective of maintaining a well-managed core equity holding for long-term investors. We thank you for your confidence in the Fund, and pledge our continued best efforts on your behalf.

Sincerely,

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



Liberty All-Star<sup>®</sup> Equity Fund President's Letter

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(Unaudited)

FUND STATISTICS AND SHORT-TERM PERFORMANCE  
PERIODS ENDED DECEMBER 31, 2015

FUND STATISTICS:

Net Asset Value (NAV) \$6.18  
Market Price \$5.35  
Discount -13.4%

	Quarter	2015
Distributions*	\$0.13	\$0.51
Market Price Trading Range	\$4.95 to \$5.49	\$4.43 to \$6.04
Premium/(Discount) Range	-13.3% to -16.2%	-11.8% to -16.2%

PERFORMANCE:

Shares Valued at NAV with Dividends Reinvested	7.22%	-1.01%
Shares Valued at Market Price with Dividends Reinvested	7.99%	-1.98%
Dow Jones Industrial Average	7.70%	0.21%
NASDAQ Composite Index	8.71%	6.96%
Lipper Large-Cap Core Mutual Fund Average	6.00%	-0.56%
S&P 500 <sup>®</sup> Index	7.04%	1.38%

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

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## Liberty All-Star® Equity Fund President's Letter

(Unaudited)

LONG-TERM PERFORMANCE SUMMARY AND DISTRIBUTIONS	ANNUALIZED RATES OF RETURN				
	PERIODS ENDED DECEMBER 31, 2015	3 YEARS	5 YEARS	10 YEARS	15 YEARS
<b>LIBERTY ALL-STAR® EQUITY FUND</b>					
Distributions	\$1.25	\$1.91	\$4.96	\$9.58	\$21.50
Shares Valued at NAV with Dividends Reinvested	12.98%	9.27%	5.33%	4.14%	8.99%
Shares Valued at Market Price with Dividends Reinvested	11.87%	9.25%	4.52%	3.80%	8.97%
Dow Jones Industrial Average	12.66%	11.30%	7.75%	5.80%	10.46%
Lipper Large-Cap Core Mutual Fund Average	13.38%	10.92%	6.41%	4.53%	9.26%
NASDAQ Composite Index	19.81%	14.91%	9.68%	5.72%	14.89%
S&P 500® Index	15.13%	12.57%	7.31%	5.00%	9.82%

\* All 2015 distributions consist of ordinary dividends and long-term capital gains. A breakdown of each 2015 distribution for federal income tax purposes can be found in the table on page 46.

Performance returns for the Fund are total returns, which include dividends. Returns are net of management fees and other Fund expenses.

The returns shown for the Lipper Large-Cap Core Mutual Fund Average are based on open-end mutual funds' total returns, which include dividends, and are net of fund expenses. Figures shown for the unmanaged Dow Jones Industrial Average, NASDAQ Composite Index and the S&P 500® Index are total returns, including dividends. A description of the Lipper benchmark and the market indices can be found on page 67.

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

Closed-end funds raise money in an initial public offering and shares are listed and traded on an exchange. Open-end mutual funds continuously issue and redeem shares at net asset value. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below or above net asset value.

Liberty All-Star® Equity Fund Unique Fund Attributes

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(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

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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

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

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Liberty All-Star® Equity Fund Unique Fund Attributes

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(Unaudited)

ACCESS TO INSTITUTIONAL MANAGERS

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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

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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

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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

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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 8 percent of the Fund's net asset value (paid quarterly at 2 percent per quarter), providing a systematic mechanism for distributing funds to shareholders.

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Investment Managers/  
Liberty All-Star® Equity Fund Portfolio Characteristics

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(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.

## INVESTMENT STYLE SPECTRUM

PORTFOLIO CHARACTERISTICS AS OF  
DECEMBER 31, 2015

## VALUE GROWTH

	Pzena	Delaware	Aristotle	Cornerstone	TCW	Total Fund	S&P 500® Index
Number of Holdings	41	33	41	41	30	164*	504
Percent of Holdings in Top 10	35%	33%	33%	43%	46%	17%	18%
Weighted Average Market Capitalization (billions)	\$95	\$77	\$85	\$133	\$95	\$97	\$137
Average Five-Year Earnings Per Share Growth	-1%	6%	5%	8%	15%	6%	8%
Dividend Yield	2.7%	2.7%	2.2%	0.8%	0.5%	1.8%	2.2%
Price/Earnings Ratio**	14x	18x	16x	25x	41x	19x	19x
Price/Book Value Ratio	1.9x	2.3x	2.6x	4.5x	5.9x	3.0x	3.1x

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

\*\*Excludes negative earnings.

Liberty All-Star<sup>®</sup> Equity Fund Investment Growth

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(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, 2015. 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 distribution policy in 1988.

The growth of the investment assuming all distributions were received in cash and not reinvested back into the Fund. The value of the investment under this scenario grew to \$50,017 (including the December 31, 2015 value of the original investment of \$8,917 plus distributions during the period of \$39,983 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 \$143,078.

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 \$205,143 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.

Table of Distributions and  
Liberty All-Star® Equity Fund Rights Offerings

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(Unaudited)

YEAR	PER SHARE DISTRIBUTIONS	RIGHTS OFFERINGS			TAX CREDITS <sup>1</sup>
		MONTH COMPLETED	SHARES NEEDED TO PURCHASE ONE ADDITIONAL SHARE	SUBSCRIPTION PRICE	
1988	\$0.64				