

LIBERTY ALL STAR EQUITY FUND
Form N-CSRS
September 03, 2009

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

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-04809

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

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

80203
(Zip code)

Tane T. Tyler

Liberty All-Star Equity Fund

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 - June 30, 2009

Item 1. Report of Shareholders

LIBERTY ALL-STAR® EQUITY FUND

Periods Ending June 30, 2009 (Unaudited)

Fund Statistics

Net Asset Value (NAV)	\$	4.36
Market Price	\$	3.46
Discount		20.6%

	Quarter	Year-to-Date
Distributions	\$0.06	\$0.16
Market Price Trading Range	\$2.86 to \$3.69	\$2.29 to \$3.73
Discount Range	18.1% to 23.8%	16.1% to 26.5%

Performance

Shares Valued at NAV	19.12%	8.04%
Shares Valued at NAV with Dividends Reinvested	19.47%	9.32%
Shares Valued at Market Price with Dividends Reinvested	20.46%	4.35%
S&P 500 Index	15.93%	3.16%
Lipper Large-Cap Core Mutual Fund Average*	16.30%	4.83%
NAV Reinvested Percentile Rank (1 = best; 100 = worst)	15th	16th
Number of Funds in Category	993	978

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

Figures shown for the Fund and the Lipper Large-Cap Core Mutual Fund Average are total returns, which include dividends, after deducting fund expenses. Figures 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 36.

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.

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. 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
PRESIDENT'S LETTER
July 2009

Fellow Shareholders:

Building on positive momentum that developed during the latter part of the first quarter, the stock market posted excellent returns in the second quarter, exemplified by the S&P 500 index, which turned in its best quarter in more than a decade. Nevertheless, the specter of rising unemployment, weak business investment, higher energy prices and continued weakness in housing hung over the stock market. After the strong run-up, momentum faded late in the quarter on expectations that further market gains would require clearer insights into the future direction of the economy and corporate profits. On balance, however, the strong gains reversed the market's downward trend and brought a welcome sense of relief to investors that a 1930's like scenario was less likely.

Real GDP for the first quarter of 2009 declined at an annualized rate of 6.4 percent. On the heels of the 5.4 percent annualized contraction during the fourth quarter of 2008, the six months ending March 31, 2009 represented the worst half-year of GDP growth since 1958. The state of labor markets remained weak, as the Commerce Department reported that non-farm payrolls declined another 467,000 in June and the unemployment rate increased to 9.5 percent. Job losses were widespread across most industry groups, with large declines in manufacturing, professional and business services, and construction.

In other indicators of economic weakness, retail sales in May came in 9.6 percent below May 2008. After a yearlong free fall in the American auto industry, the decline of sales slowed in June, offering some hope to automakers that the bottom had been reached. Sales were down 28 percent in June compared to the year-earlier month. Industrial production tumbled a larger-than-expected 1.1 percent in May as the recession crimped demand for a wide range of manufactured goods. It was also the seventh straight month of decline. Crude oil prices, which fell to the range of \$45 per barrel earlier in the year, rallied into the range of \$70 on signs of higher emerging market demand, particularly in China.

Fully participating in the rally, Liberty All-Star Equity Fund for the quarter returned 19.12 percent with shares valued at net asset value (NAV); 19.47 percent with shares valued at NAV with dividends reinvested; and 20.46 percent with shares valued at market price with dividends reinvested. By all three measures of return, the Fund outperformed the Lipper Large-Cap Core Mutual Fund Average, the Fund's primary benchmark, and the S&P 500 for the quarter. The strong quarter also moved the Fund comfortably into positive territory through the first half of the year. In addition, the Fund's NAV reinvested return ranked in the 15th percentile of the Lipper universe for the second quarter and in the 16th percentile for the first half.

I call your attention to two manager interviews in this quarter's report: Arnie Schneider of Schneider Capital Management, who responds to our questions from a value style perspective, and David Scott of Chase Investment Counsel, whose comments reflect the growth style of investing.

In sum, while we are encouraged by the second quarter's results, we remain realistic in terms of expectations going forward, especially over the near term. Patience and diligence are the watchwords as we move into the second half. After such a sharp decline, economic recovery will take time. Building a solid base, including correcting excesses of the past, should prove to be a more enduring solution and more rewarding for investors.

Sincerely,

William R. Parmentier, Jr.
President
Liberty All-Star Equity Fund

The views expressed in the President's letter and the Manager Interviews reflect the views of the President and Managers as of July 2009 and may not reflect their views on the date this report is first published or anytime thereafter. These views are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict so actual outcomes and results may differ significantly from the views expressed. These views are subject to change at any time based upon economic, market or other conditions and the Fund disclaims 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.

SECOND QUARTER REPORT JUNE 30, 2009

LIBERTY ALL-STAR® EQUITY FUND

TABLE OF DISTRIBUTIONS & RIGHTS OFFERINGS

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				