

LIBERTY ALL STAR EQUITY FUND
Form N-30D
June 19, 2002

ANNUAL REPORT 2001

[GRAPHIC]

[ALL-STAR LOGO]

[GRAPHIC]

LIBERTY ALL-STAR EQUITY FUND

A SINGLE INVESTMENT...
A DIVERSIFIED CORE PORTFOLIO

Only one mutual fund offers:

- A diversified, multi-managed portfolio of growth and value stocks
- Exposure to all of the industry sectors that make the U.S. economy the world's most dynamic
- Access to institutional-quality investment managers
- Objective and ongoing manager evaluation
- Active portfolio rebalancing
- A quarterly fixed distribution policy
- The power of more than \$1.1 billion in assets
- Listing on the New York Stock Exchange (ticker symbol: USA)

LIBERTY ALL-STAR EQUITY FUND

PRESIDENT'S LETTER

FELLOW SHAREHOLDERS:

FEBRUARY 2002

Two thousand one marked the fifteenth anniversary of the Liberty All-Star Equity Fund, one of the first funds of its kind to bring the benefits of multi-management to the individual investor. The year also marked the second consecutive negative year for the stock market - as measured by the S&P 500 Index - a phenomenon not seen since 1973-74. Despite the difficulties, the Fund

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performed well on a relative basis over the course of the year based on both net asset value (NAV) and market price. Shareholders should take some comfort in the fact that Fund shares valued at market price with dividends reinvested were unchanged during a year when most market indices experienced double-digit declines. Of greater significance than any one year, however, is the Fund's consistent performance over its 15-year history, a subject about which I will say more momentarily.

[GRAPHIC]

Returning to 2001, the following table summarizes key performance data for the fourth quarter and the full year. Note that in the market rebound during the fourth quarter, the Fund's NAV outperformed the Lipper Large-Cap Core Mutual Fund Average, as well as the broader market, as measured by the S&P 500 Index. The full year was more challenging; although the Fund's NAV gave up ground, the Fund still outperformed the Lipper Large-Cap Core benchmark and narrowly trailed the S&P 500. Further, as I have already pointed out, the Fund's market price outperformed both indices by an even wider margin.

FUND STATISTICS AND SHORT-TERM PERFORMANCE
PERIODS ENDING DECEMBER 31, 2001

4TH QUARTER

LIBERTY ALL-STAR EQUITY FUND

| | |
|---|--------------------|
| Year End Net Asset Value (NAV) | |
| Year End Market Price | |
| Year End Premium | |
| Dividends Paid | \$0.25 |
| Market Price Trading Range | \$10.40 to \$11.85 |
| Premium (Discount) Range | 4.0% to 14.0% |
| Shares Valued at NAV | 15.1% |
| Shares Valued at NAV with Dividends Reinvested | 14.9% |
| Shares Valued at Market Price with Dividends Reinvested | 6.9% |
| Lipper Large-Cap Core Mutual Fund Average | 10.6% |
| S&P 500 Index | 10.7% |

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LONG-TERM PERFORMANCE SUMMARY
PERIODS ENDING DECEMBER 31, 2001

ANNUALIZED RATES

LIBERTY ALL-STAR EQUITY FUND

3 YEARS 5 YEARS

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| | | |
|---|-------|------|
| Shares Valued at NAV | 0.8% | 9.2% |
| Shares Valued at NAV with Dividends Reinvested | 1.5 | 9.7 |
| Shares Valued at Market Price with Dividends Reinvested | 6.2 | 11.9 |
| Lipper Large-Cap Core Mutual Fund Average | (1.6) | 8.2 |
| S&P 500 Index | (1.0) | 10.7 |

Figures shown for the Fund and the Lipper Large-Cap Core Mutual Fund Average are total returns, which include dividends, after deducting fund expenses. The Fund's reinvested returns assume all primary subscription rights in all the Fund's rights offerings were exercised. Figures shown for the unmanaged S&P 500 Index are total returns, including income.

I would like to highlight additional relative performance information that the table does not show, namely, that in the fourth quarter the Fund's 14.9 percent NAV reinvested return ranked in the top 5 percent of the Lipper Large-Cap Core universe. For the full year, the Fund's NAV results were also above average in that comparative Lipper universe.

In a report that marks the Fund's fifteenth anniversary, it is appropriate to look back beyond the past year to gauge the Fund's performance through time. Once again, the story is a positive one. For three- and five-year periods the Fund shows similarly consistent NAV based results, as it ranked in the 15th and 36th percentiles (1 = Best; 100 = Worst) within the Lipper Large Cap Core universe, respectively. The Fund's 15-year return places it in the 29th percentile and, importantly, as the chart on page 8 shows, with less volatility than the universe of Lipper Large Cap Core funds that have a 15-year history.

Those long-term results were delivered with the consistency of return for which the Fund was originally designed. Borrowing from a quote that appeared in All-Star's very first Annual Report, the Fund "is intended to result in more consistent and less volatile investment performance over changing market cycles" (the full quote appears on page 8). As the timeline appearing on pages 4 and 5 of this Annual Report so graphically illustrates, the Fund has operated through times of tumult and times of relative calm ... through wars and recessions ... through tragedy and triumph. The most recent year, 2001, presented more than its share of challenge. Through all of these times, both good and bad, the Fund remained true to its disciplines and Liberty Asset Management Company ensured that the investment managers did not deviate from their respective growth and value styles. To underscore the validity of our approach, it is worth observing that the Fund has outperformed the Lipper Large-Cap Core Mutual Fund Average for every trailing annualized period ending December 31, 2001 (i.e. 1, 2, 3, 4...15 years).

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Also, during the past 15 years, only one other fund in that universe having a 15-year record has delivered a better combination of return and consistency than All-Star has, as the graph on page 8 illustrates. As to the future, we make no prediction, but we continue today to apply the same thinking and investment discipline to managing the Fund as its founders did in 1986. Liberty All-Star Equity Fund has proven itself through time, and we are confident it will continue to do so.

On behalf of the entire team at Liberty Asset Management Company, I would like to take this opportunity to thank you for your continuing support of the

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Fund. As always, we will continue to work in the best long-term interests of All-Star shareholders.

Sincerely,

/s/ William R. Parmentier

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

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LIBERTY ALL-STAR EQUITY FUND: CHARTING OUR 15 YEARS

[CHART]

LOOKING BACK ON SOME OF THE HIGHLIGHTS OVER AN HISTORIC PERIOD, 1986 - 2001

| | | ALL-STAR MARKET PRICE WITH DIVIDENDS REINVESTED |
|---|--------|---|
| ----- | | |
| 1986 | | |
| [GRAPHIC] LIBERTY ALL-STAR EQUITY FUND COMPLETES PUBLIC OFFERING IN OCTOBER OF 51 MILLION SHARES | Dec-86 | 9.62500 |
| 1987 | | 9.62500 |
| STOCK MARKET CRASH SENDS DOW JONES INDUSTRIAL AVERAGE DOWN 22.6% ON OCTOBER 19 | | 9.50000 |
| | | 9.42188 |
| | | 9.17063 |
| | | 8.41688 |
| | | 9.19800 |
| | | 9.95400 |
| | | 10.41300 |
| | | 9.88200 |
| | | 7.54875 |
| | Dec-87 | 6.31350 |
| | | 6.84000 |
| 1988 | | 7.98000 |
| NEW YORK STOCK EXCHANGE PROGRAM TRADING CURBS INTRODUCED | | 7.98000 |
| | | 7.74225 |
| | | 7.45550 |
| | | 7.45550 |
| | | 8.26000 |
| | | 8.11250 |
| | | 7.81750 |
| | | 8.49800 |
| | | 8.34625 |
| | | 8.64975 |
| | Dec-88 | 9.04075 |
| 1989 | | 9.19663 |
| [GRAPHIC] FALL OF THE BERLIN WALL | | 8.72900 |
| | | 9.14138 |

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| | | |
|--|--------|----------|
| | | 9.62250 |
| | | 9.94325 |
| | | 10.08788 |
| | | 10.41863 |
| | | 10.91475 |
| | | 11.07438 |
| | | 10.73363 |
| | | 11.07438 |
| | Dec-89 | 11.57475 |
| 1990 | | 11.04863 |
| [GRAPHIC] IRAQ INVADES KUWAIT | | 11.22400 |
| | | 11.35575 |
| | | 11.17550 |
| | | 12.07675 |
| | | 12.24300 |
| | | 12.24300 |
| | | 10.94450 |
| | | 10.70300 |
| | | 11.08525 |
| | | 11.46750 |
| | Dec-90 | 12.16750 |
| 1991 | | 12.56000 |
| [GRAPHIC] USSR BREAKS UP | | 14.13000 |
| | | 14.91100 |
| | | 15.11250 |
| | | 16.12000 |
| | | 15.50625 |
| | | 15.50625 |
| | | 15.50625 |
| | | 16.98000 |
| | | 16.76775 |
| | | 16.34325 |
| | Dec-91 | 18.71575 |
| 1992 | | 18.71575 |
| BORIS YELTSIN AND GEORGE BUSH FORMALLY END COLD WAR; | | 19.15100 |
| CUTS IN MILITARY BUDGETS IN THE U.S. CONTRIBUTE | | 18.75300 |
| BUDGET SURPLUSES IN FOLLOWING YEARS | | 18.75300 |
| | | 19.19950 |
| | | 19.00700 |
| | | 20.15200 |
| | | 19.46500 |
| | | 19.24950 |
| | | 19.71900 |
| | | 20.65800 |
| | Dec-92 | 21.41563 |
| 1993 | | 21.17500 |
| NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) ENACTED | | 21.41563 |
| | | 21.47712 |
| | | 21.22050 |
| | | 21.71400 |
| | | 22.00013 |
| | | 22.25300 |
| | | 22.50588 |
| | | 22.81400 |
| | | 23.07325 |
| | | 23.39700 |
| | Dec-93 | 24.04113 |

A 15-YEAR DIARY

1986

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- Seven Astronauts killed in Challenger space shuttle disaster

1987

- Alan Greenspan becomes Federal Reserve chairman

1988

- RJR Nabisco leveraged buyout

1989

- Japan's Nikkei 225 Index hits record 38915 - up 492% for the decade
- Junk bond market meltdown
- U.S. invades Panama

1990

- Recession begins (July)
- Junk bond king Michael Milken pleads guilty, ending years of financial engineering at Drexel Burnham
- Bubble bursts in Japan's stock market
- Gulf War begins

1991

- Recession ends (March)
- Gulf War ends

1992

- World Wide Web established
- Bill Clinton elected President
- Riots in Los Angeles

1993

- World Trade Center bombing

1994

- Orange County, California, files for bankruptcy

1995

- Oklahoma City bombing
- Mergers: Walt Disney and Capital Cities/ABC

1996

- Fed Chair Alan Greenspan utters famous "irrational exuberance" warning
- President Clinton re-elected
- Mergers: Boeing and McDonnell Douglas

4

[CHART]

ALL-STAR MARKET
PRICE WITH
DIVIDENDS REINVESTED

| | |
|--|----------|
| 1994 | 24.04113 |
| [GRAPHIC] NASDAQ SURPASSES NEW YORK STOCK EXCHANGE | 23.23075 |
| IN ANNUAL SHARE VOLUME | 22.15000 |
| | 23.25750 |
| | 23.25750 |

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| | | |
|---|--------|----------|
| | | 22.70000 |
| | | 22.98375 |
| | | 22.99888 |
| | | 22.70775 |
| | | 21.83438 |
| | | 20.37875 |
| | Dec-94 | 20.35750 |
| 1995 | | 20.95625 |
| NETSCAPE IPO; STOCK IS PRICED AT \$28 AND RISES TO \$71 | | 21.85438 |
| ON THE FIRST DAY OF TRADING | | 23.61975 |
| | | 23.92650 |
| | | 23.31300 |
| | | 25.14000 |
| | | 25.45425 |
| | | 25.76850 |
| | | 26.76750 |
| | | 26.76750 |
| | | 27.41250 |
| | Dec-95 | 28.77525 |
| 1996 | | 29.10600 |
| [GRAPHIC] THE "GRANDDADDY" OF BENCHMARKS, THE DOW JONES | | 29.43675 |
| INDUSTRIAL AVERAGE, MARKS ITS CENTENNIAL | | 30.86038 |
| | | 30.18213 |
| | | 29.50388 |
| | | 29.97100 |
| | | 27.88000 |
| | | 29.97100 |
| | | 31.44900 |
| | | 31.80638 |
| | | 33.05250 |
| | Dec-96 | 33.43500 |
| 1997 | | 34.54950 |
| THAILAND DEVALUES THE BAHT, TRIGGERING ASIAN ECONOMIC | | 35.29250 |
| CRISIS | | 35.84925 |
| | | 36.23063 |
| | | 38.13750 |
| | | 40.45556 |
| | | 42.40994 |
| | | 41.62819 |
| | | 45.28475 |
| | | 41.67800 |
| | | 43.77150 |
| | Dec-97 | 44.95631 |
| 1998 | | 45.16738 |
| RUSSIA DEVALUES THE RUBLE; U.S.HAS FIRST FEDERAL BUDGET | | 47.70013 |
| SURPLUS SINCE 1969 | | 49.29075 |
| | | 47.99363 |
| | | 45.39938 |
| | | 48.68644 |
| | | 48.01950 |
| | | 37.34850 |
| | | 42.55913 |
| | | 43.70319 |
| | | 46.67775 |
| | Dec-98 | 48.64500 |
| 1999 | | 48.41000 |
| [GRAPHIC] EURO IS LAUNCHED | | 47.70500 |
| | | 49.43063 |
| | | 50.63625 |
| | | 50.15400 |
| | | 54.53250 |
| | | 53.54100 |

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| | |
|---|----------|
| | 48.83138 |
| | 47.89300 |
| | 49.42150 |
| | 46.36450 |
| | 46.49569 |
| 2000 | 45.70763 |
| BUSH DECLARED PRESIDENT AFTER MONTH-LONG DELAY | 45.18225 |
| | 48.40831 |
| | 48.40831 |
| | 48.67875 |
| | 54.80294 |
| | 55.91569 |
| | 57.86300 |
| | 60.09938 |
| | 59.24081 |
| | 54.94800 |
| | 58.28625 |
| | 63.58500 |
| 2001 | 62.69095 |
| [GRAPHIC] 9/11: U.S. ATTACKED BY TERRORISTS; WORLD TRADE CENTER DESTROYED; PENTAGON HIT; UNITED AIRLINES FLIGHT 93 BROUGHT DOWN IN PENNSYLVANIA | 59.30225 |
| | 63.61074 |
| | 64.51900 |
| | 65.01530 |
| | 62.33528 |
| | 60.84975 |
| | 54.53370 |
| | 56.99850 |
| | 59.14125 |
| | 58.30013 |

USA
LISTED
NYSE

1997

- Dow Jones Industrial Average surpasses 7000 and 8000
- Princess Diana killed in Paris auto accident
- Mergers: WorldCom and MCI; Morgan Stanley and Dean Witter

1998

- Long-Term Capital Management bail-out
- Nikkei 225 sags to 13842
- Mergers: Citicorp and Travelers; Exxon and Mobil; Daimler-Benz and Chrysler

1999

- Dow Jones Industrial Average hits 10000
- NASDAQ Composite Index rises 86%
- John Glenn becomes the oldest person in space at 77
- Mergers: Pfizer and Warner-Lambert; Viacom and CBS

2000

- Economic expansion hits record of 107 months (February)
- S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index reach record highs in first quarter
- Unemployment rate falls below 4% for the first time in 30 years (September)
- NASDAQ Composite ends year off 39%
- Mergers: AOL and Time-Warner; Chase Manhattan and J.P. Morgan

2001

- Eleven interest rate reductions by the Federal Reserve lower the Fed funds rate to 1.75%, a 40-year low

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- Unemployment rate reverses course, hits 5.8% (December)
- In December, industrial production falls for 14 of the past 15 months
- GE and Honeywell merger abandoned
- Enron files for bankruptcy
- Argentina's economy in turmoil

5

MANAGEMENT OVERVIEW

What Shareholders Should Know About Liberty All-Star Equity Fund

[GRAPHIC]

| | |
|------------------------------------|---------------------------------|
| MULTIPLE MANAGERS | GROWTH AND VALUE MANAGERS |
| ACTIVE PORTFOLIO REBALANCING | DISTRIBUTION POLICY |

LIBERTY ALL-STAR EQUITY FUND COMBINES A RANGE OF DESIRABLE ATTRIBUTES IN A SINGLE FUND.

Five aspects of Liberty All-Star Equity Fund especially important to shareholders are:

- Multi-management investment approach
- Alignment with shareholder interests
- Active portfolio rebalancing
- Closed-end structure
- Distribution policy

As the Fund's multi-management investment approach is discussed more thoroughly on pages 8 and 9, this analysis will concentrate on the other points, starting with shareholder interests.

The management of Liberty Asset Management Company (LAMCO) believes that it has achieved excellent alignment of shareholder and fund advisor interests since the Fund's inception in 1986. LAMCO, the Fund Manager, was established in that year. LAMCO's function is different from most asset management companies in that instead of managing a portfolio of stocks, we manage a portfolio of investment managers. We look at investment management firms in much the same way that a portfolio manager analyzes a company that's a candidate for investment. We refer to this as "looking at the four Ps" . . . that is, a focus on each investment management firm's philosophy, process, people and performance.

In terms of shareholder benefit, that makes the Fund a turnkey investment, as LAMCO performs all the due diligence, research, selection and monitoring that would be expected of a professional investment management firm. Using our expertise, experience and state-of-the-art tools, we select managers for the Fund and we analyze them on an ongoing basis. LAMCO adds value by selecting best of breed managers and replacing them when necessary. There are very few mutual fund products, even if they're multi-managed, that have the objective oversight that we provide on an ongoing basis.

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We are aligned with the investor and shareholder because if a manager is not performing, then we're not performing. LAMCO has no vested interest in retaining

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or keeping managers for any reason other than superior performance relative to their style. We want what the shareholder wants, and that's better long-term, and more consistent returns than comparable mutual funds. LAMCO's senior management are shareholders in the Fund and are compensated in large measure based on the Fund's performance.

MULTI-MANAGEMENT: A PROVEN STRATEGY

Multi-management is fundamental to All-Star's investment approach and to LAMCO's investment philosophy. As noted, pages 8 and 9 discuss multi-management, but it is worth observing in passing that subadvised and/or multi-managed funds are becoming more popular in the mutual fund industry; subadvised mutual funds, in fact, are growing at a faster rate than internally managed funds. LAMCO recognized the value of this approach 15 years ago.

Not only does LAMCO select and continuously monitor the Fund's five investment managers, it engages in the discipline of active portfolio rebalancing to maintain the Fund's structural integrity through time. What is rebalancing? With five managers, it's natural that their various growth and value styles will cause them to perform differently over time. When LAMCO rebalances, it takes assets from the outperforming manager or managers and redeploys those assets among the other manager or managers. In this sense, it's about taking gains from today's winners and giving them to tomorrow's.

Turning to the Fund's closed-end structure, a closed-end fund is one that has a fixed number of shares, which are bought and sold on a stock exchange through a broker or other financial intermediary. By contrast, most mutual funds are "open-ended" funds that continually offer new shares to investors and redeem shares when requested by the investor. All-Star is listed on the New York Stock Exchange (ticker symbol: USA) and is priced just like any other stock traded on an exchange - that is, by the supply and demand for the stock. Open-ended funds are not traded on stock exchanges; rather, purchases and redemptions are transacted at the net asset value price by the fund sponsor.

Why is All-Star a closed-end fund? Because the structure lends itself to multi-management and to All-Star's objective as a long-term core investment. Being a closed-end fund with a fixed number of shares allows All-Star's investment managers to plan more effectively and not be forced to react to temporary stock market fluctuations and untimely cash flows. The managers are strictly focused on stock selection - not what the next day's inflows or outflows will be. Another advantage to closed-end funds is lower expenses. For example, because there's a fixed shareholder base and, thus, fewer transactions, transfer agency fees are lower.

DISTRIBUTION POLICY PROVIDES FLEXIBILITY

Since 1988, the Fund has had a policy of paying annual distributions on its common shares totaling approximately 10 percent of the Fund's net asset value. The distributions are paid quarterly at a rate of 2.5 percent.

The Fund's multi-management investment approach and the payout policy complement one another because when LAMCO finds it necessary to replace an

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investment manager a portion of the portfolio is turned over (sold). This often results in the realization of capital gains which provides a systematic mechanism for distributing funds to shareholders, which are generally taxed at a lower rate than ordinary income for most shareholders. This has helped to make the Fund a more tax efficient investment for most shareholders.

All-Star has a diverse shareholder base. Some investors want a steady stream of income with equity participation and choose to take their dividends in the form of cash. Others choose to reinvest their dividends. Thus, in making its distributions, the Fund is not liquidating 10 percent of its assets each year, because many shareholders let their dividends compound over time by reinvesting.

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MULTI-MANAGEMENT: WHAT AND WHY

A CONSISTENT APPROACH TO INVESTMENT MANAGEMENT SINCE 1986

"All-Star's portfolio is multi-managed, rather than single-managed, as are almost all other mutual funds. Its assets are equally divided among five portfolio management firms, each using a distinct, individualized style in managing common stock portfolios. A successful portfolio management firm's style is consistently employed through all types of stock market environments. Any one style will result in better investment results in some markets than in others. Thus, as ever-changing investors' preferences cause changes in stock market leadership, one or more of All-Star's five different management styles are expected to be in favor and the Fund as a whole will benefit. This same general approach is used by most large pension funds in the United States, and is intended to result in more consistent and less volatile investment performance over changing market cycles than the use of the investment style of a single manager."

- LIBERTY ALL-STAR EQUITY FUND'S FIRST ANNUAL REPORT (1986)

What was true 15 years ago remains equally true today. The preceding description of All-Star's investment approach can be reprinted today, 15 years later, without change. Today, as it did then, All-Star's Fund Manager, Liberty Asset Management Company (LAMCO), utilizes multi-management instead of relying on a single investment manager, as do most mutual funds. Since investment styles go in and out of favor, a style that produces strong returns one year may produce disappointing results the next. By contrast, multi-management combines managers who practice different investment styles to reduce volatility while producing attractive returns.

The Fund is structured as a core investment by combining both growth and value style managers within the Fund. LAMCO doesn't ask an investment manager to pick both growth and value stocks because that's an inefficient way to blend the two styles. Instead, we believe that many good investment managers achieved their success because they practice a specific style of investing and do so because that's what they truly believe is the best way to make money.

All-Star's long-term track record provides clear testimony to the benefits of the multi-management strategy. As the chart below illustrates, since All-Star's first full calendar year of operation 15 years ago, the Fund has achieved better-than-average returns and better-than-average consistency compared with other open-end core funds.

[GRAPHIC]

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All-Star's high return and high consistency combination is well-placed among the universe of open-end Large-Cap Core funds

Each dot represents the precise 15-year return and consistency record ending December 31, 2001, of one fund in the universe of 48 open-end Large-Cap Core equity mutual funds (as classified by Lipper, Inc.) that have a 15-year history.

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.

8

HOW LAMCO PRACTICES MULTI-MANAGEMENT

[CHART]

TCW INVESTMENT MANAGEMENT COMPANY

GROWTH/Companies that have superior sales growth, leading and/or rising market shares, and high and/or rising profit margins.

OPPENHEIMER CAPITAL

VALUE/Companies that exhibit the ability to generate excess cash flow while earning high returns on invested capital that trade below their intrinsic value.

WESTWOOD MANAGEMENT CORPORATION

VALUE/Companies selling at reasonable valuations based on the firm's earnings projections, which are not yet reflected in consensus estimates.

BOSTON PARTNERS ASSET MANAGEMENT, L.P.

VALUE/Companies with low price-to-earnings and price-to-book ratios where a catalyst for positive change has been identified.

MASTRAPASQUA & ASSOCIATES

GROWTH/Companies whose valuations do not reflect the potential for accelerated earnings and cash flow growth.

LAMCO SELECTS AND BLENDS INVESTMENT MANAGERS FOR ALL-STAR, AND IT EVALUATES THEM ON AN ONGOING BASIS, REPLACING THEM WHEN NECESSARY

The investment managers LAMCO selects for All-Star are distinguished by a number of characteristics:

- A constant focus on a particular style of investing.
- A disciplined investment decision-making process.
- A record of success relative to other managers who practice the same strategy.
- Continuity among the investment professionals, so that those who have built the record remain the managers.
- A well-managed, highly responsive organization.

The pie chart above shows the investment manager lineup and the allocations to each, and is accompanied by a brief description of the managers' style.

LAMCO conducts continuing evaluation of the investment managers to be sure that each is still the best choice for All-Star. Through frequent meetings with the investment managers, and through other qualitative and quantitative

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analyses, each is continually evaluated to assure that: they are consistently practicing their investment style; their organization and investment process continue to support their style; and their investment performance is competitive when compared with other managers practicing a similar style.

LAMCO is also alert to ensuring the proficiency of the investment managers as a team. The objective is to be certain that the team remains an optimal combination, giving All-Star the full benefits of multi-management. Our procedures include:

- Assuring that All-Star's total portfolio has the proper investment characteristics.
- Researching new managers as possible future investment managers.
- Active rebalancing among investment managers.
- Making manager changes when necessary. Ten investment managers have been replaced during the Fund's 15-year history.

9

MANAGER ROUNDTABLE

SIGNALS POINT TO RECOVERY AHEAD, BUT CAUTION LIGHTS ARE BLINKING TO REMIND INVESTORS NOT TO GET AHEAD OF THEMSELVES; THE MANAGERS FOCUS ON COMPANY FUNDAMENTALS

A YEAR AGO, stock market indices had closed out a down year, the Fed was cutting interest rates, the Bush/Gore election had been resolved, "new economy" dreams had been replaced by old economy realities and it seemed as though markets were poised for a steady, if unspectacular year. But, events don't always go as scripted, and stocks gave up ground again in 2001 as investors focused on weak corporate earnings, valuations that remained high by historical standards, a slowing economy and a host of lesser problems - and that was before September 11. What are the chances of a third straight negative year? All-Star's managers focus on stockpicking, not market forecasting, so there's no attempt to answer that question here. But - as this Manager Roundtable shows - their differing styles lead them to differing perspectives on 2002.

THE VIEWS EXPRESSED IN THIS INTERVIEW REPRESENT THE MANAGERS' VIEWS AT THE TIME OF THE DISCUSSION (JANUARY 2002) AND ARE SUBJECT TO CHANGE.

For our 2001 Annual Report Roundtable, All-Star's five investment managers share their views on a number of topics, from a look back at 2001 to a look ahead at how their individual styles will drive investment decisions in 2002. While 2001 was a challenging year for Liberty All-Star Equity Fund - as it was for most equity investors - the Fund's shares valued at market price managed to close the year exactly where they began it. This was a notable achievement, as most growth and value indices declined. The Fund Manager, Liberty Asset Management Company (LAMCO), serves as moderator for the Roundtable. The participating portfolio managers and their investment styles are:

BOSTON PARTNERS ASSET MANAGEMENT, L.P.

PORTFOLIO MANAGER/Mark E. Donovan,
Chairman, Equity Strategy Committee

INVESTMENT STYLE/Value - Boston Partners invests in undervalued companies that have sound business fundamentals and positive business momentum. The firm searches for companies with low price-to-earnings and price-to-book value ratios

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where a catalyst for positive change has been identified.

MASTRAPASQUA & ASSOCIATES

PORTFOLIO MANAGER/Frank Mastrapasqua,
Chairman and Chief Executive Officer

INVESTMENT STYLE/Growth - Mastrapasqua uses proprietary screens, in-house research and direct contact with managements to select growth companies with compelling valuations. Mastrapasqua focuses on companies with proven competitive advantage and profitability records. A proprietary risk-adjusted price-to-earnings ratio is computed and compared to an independently derived long-term earnings growth rate. Companies selected for investment have projected growth rates that exceed the risk-adjusted price-to-earnings ratio.

OPPENHEIMER CAPITAL

PORTFOLIO MANAGER/ John G. Lindenthal,
Managing Director

INVESTMENT STYLE/Value - Oppenheimer invests in the stocks of quality companies with sound business prospects that are considered undervalued. Research focuses on cash flow analysis. Purchase candidates exhibit a high return on equity, large undedicated cash flow and reasonable prices in relation to intrinsic value.

TCW INVESTMENT MANAGEMENT COMPANY

PORTFOLIO MANAGER/Glen E. Bickerstaff,
Managing Director U.S. Equities

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. Its concentrated growth equity strategy seeks leading companies with distinct advantages in their business model and an inherent edge over their competitors. Research plays a critical role in the selection process, and the investment horizon is long term.

WESTWOOD MANAGEMENT CORPORATION

PORTFOLIO MANAGER/Susan M. Byrne,
President and Chief Investment Officer

INVESTMENT STYLE/Value - Westwood employs internally-generated, bottom-up, fundamental research and seeks to identify stocks with misperceived growth expectations. Proprietary income and balance sheet projections are utilized to identify securities whose typical portfolio

[SIDENOTE]

"P/E RATIOS MAY APPEAR HIGH FROM A HISTORICAL PERSPECTIVE, BUT RELATIVE TO INTEREST RATES AND, PERHAPS MORE IMPORTANTLY, RELATIVE TO INFLATION - BOTH OF WHICH ARE QUITE LOW - VALUATIONS ARE REASONABLE."

GLEN BICKERSTAFF,
TCW (GROWTH)

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characteristics include higher return on equity, higher forecasted 12-month growth rates and lower forecasted price-to-earnings ratios than the market.

LAMCO: Looking back, what is the one thing that surprised you most about the financial markets in 2001? John Lindenthal, lead off for us, please.

LINDENTHAL (OPPENHEIMER - VALUE): The biggest surprise in terms of the

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investment overview was the extent of the decline in short-term interest rates due to Fed easing and weakness in the economy. In terms of individual stocks, the collapse of Enron happened very fast.

LAMCO: How about the other value managers' perspectives, Susan Byrne and Mark Donovan?

BYRNE (WESTWOOD - VALUE): Beyond the shock and pain of September 11, we think the collapse of Enron would be the biggest surprise. I thought the lessons over leverage had been learned in 1998 with the demise of Long-Term Capital Management. Usually, these are generation-defining events, but with this one-two punch, the market's focus on the balance sheet should prove to be a strict disciplinarian.

DONOVAN (BOSTON PARTNERS - VALUE): We were surprised by the strength of the fourth quarter recovery in stock prices, and particularly surprised at investors' willingness to move back into NASDAQ stocks. While the sharp initial sell-off of stocks immediately after the September 11 attacks was clearly an emotional reaction and bound to be followed by a bounce back, we found it surprising that the rise persisted through year-end. In our judgment, corporate America still faces a challenging profit environment in the quarters ahead, even if we have now passed through the trough of the recession. These challenges are particularly evident for many NASDAQ companies, some of which have seen 50 percent or greater increases in their share prices off of their September lows.

LAMCO: What about the growth managers? What surprised you, Frank Mastrapasqua and Glen Bickerstaff?

MASTRAPASQUA (MASTRAPASQUA & ASSOCIATES - GROWTH): We were most surprised by the speed with which the financial markets were able to recover from the devastation to infrastructure and life that occurred on September 11. Despite losses to a single firm which provided 25 percent of fixed income market liquidity, two days later the market was trading in an orderly manner. The equity markets, being closed for four days, functioned efficiently when reopened with virtually no disruptions.

BICKERSTAFF (TCW - GROWTH): We do not try to forecast the markets. Rather, we spend our time focusing on companies that possess significant business model advantage and that, over time, will be able to gain share and create wealth for shareholders. Nevertheless, we were surprised by the dramatic sell-off in the market in 2001 and the abrupt slowdown in capital spending.

LAMCO: After a look back at 2001, let's turn our focus to 2002. Persuasive arguments can be made, pro and con, for the stock market outlook (e.g., pro: Fed interest rate cuts, rebound in the economy; con: high P/E ratios, global recession, further terrorist attacks). What factors, bottom-up or top-down, are you focusing on to drive investment decisions in 2002? Glen Bickerstaff, let's stay with you.

BICKERSTAFF (TCW - GROWTH): From a top-down standpoint we try to identify long-term themes that specific companies can benefit from. We have witnessed a significant lowering of interest rates after what were perhaps unnecessary increases in 1999 and 2000. The war on terrorism has gone well. The global synchronized recession may turn into a global synchronized recovery. Price-to-earnings (P/E) ratios may appear high from a historical perspective, but relative to interest rates and, perhaps more importantly, relative to inflation - both of which are quite low - valuations are reasonable. Besides, as companies have come through a profits recession the earnings of current price-to-earnings (P/E) ratios are a bit depressed. If the economy does recover, then forecast earnings - especially relative to down cycle results, where companies were willing to take writedowns - may exceed consensus expectations.

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LAMCO: Frank Mastrapasqua, what are you focusing on to drive investment decisions?

MASTRAPASQUA (MASTRAPASQUA & ASSOCIATES - GROWTH): We're anticipating further liquidity growth, lower energy prices, inventory liquidation, fiscal stimulus and the geopolitical realignment to be key developments.

[SIDENOTE]

"IF A PROFIT RECOVERY FAILS TO MATERIALIZE, WE SUSPECT THERE WILL BE A GROWING CONCERN THAT THE AGGRESSIVE MONETARY EASING...HAS NOT WORKED AND THE FED IS `PUSHING ON A STRING...'"

MARK DONOVAN,
BOSTON PARTNERS (VALUE)

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Earnings are likely to surprise on the upside, led by recovery in technology, health care, financial services, transportation and business service sectors.

LAMCO: Susan Byrne, how about Westwood Management's focus for 2002?

BYRNE (WESTWOOD - VALUE): Westwood believes the fundamentals are in place for economic growth and a rebound in corporate earnings. The existing monetary and fiscal stimulus will lead to an economic recovery in the first half of 2002, and the economy should grow steadily in the second half of the year, but at a level below its historical trend as consumer spending remains muted. Corporate profits will post a sharper rebound next year as cost cutting and headcount reductions set the stage for strong earnings growth, driven by a moderate improvement in sales growth. Benign inflation will be supportive to equity valuations.

LAMCO: What is Boston Partners focused on, Mark Donovan?

DONOVAN (BOSTON PARTNERS - VALUE): We are primarily focused on the trend in corporate profits. Most of the published estimates for 2002 suggest that operating earnings for the S&P 500 will come in around \$49.00, representing a 13% increase over estimated 2001 operating earnings. We believe there are a number of factors that may make it difficult for companies to meet their profit expectations. These include overcapacity in the industrial and technology sectors, a financially strapped consumer, and an expected rise in the costs associated with corporate defined benefit pension plans. With the S&P now trading at about 23 times forecasted profits, we don't see a tremendous margin of safety to protect investors against disappointments in earnings for the year ahead.

LAMCO: John Lindenthal, what are you concentrating on at Oppenheimer?

LINDENTHAL (OPPENHEIMER - VALUE): Future events that are top-down in relation to interest rates, the economy and global recession are almost impossible to predict. We focus on individual stock selection, where the opportunity to generate positive returns outweighs the risk of ownership. Overall valuations remain high, so we are focused on finding value in individual securities. We continue to have an over weighting in financial stocks.

LAMCO: Turning to another thought about 2002, what, in your opinion, is the biggest risk factor or source of disappointment that might diminish returns in 2002, and what is the biggest potential positive surprise that might take the market higher? Let's ask the growth managers to start off.

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MASTRAPASQUA (MASTRAPASQUA & ASSOCIATES - GROWTH): The biggest risk factor is the possibility that a premature shift from an aggressive monetary policy stalls the prospect for a multi-year cyclical rebound. The most likely upside surprise would be strong productivity, thus raising earnings and cash flow to unexpected levels.

BICKERSTAFF (TCW - GROWTH): The historically high level of mortgage refinancing has probably run its course. At the margin, the consumer's financial situation cannot get significantly better. So, one should not expect a powerful, consumer-led recovery. However, after a significant hiatus, corporate America should be ready to resume investing capital in equipment that will enable companies to compete in a globally competitive world. Today's technology products offer greater improvements and enhancements for the dollar invested than at any similar point in a period of economic decline. The fact that companies have been able to improve productivity during a recession, when they were mostly overstaffed, affirms the notion that spending for information technology equipment has made business much more efficient. Moreover, as technology product prices have fallen during the recession the value proposition to business has become quite compelling.

LAMCO: OK, let's turn to the value perspective. Start us off, Mark Donovan.

DONOVAN (BOSTON PARTNERS - VALUE): As I noted earlier, the market seems to have embraced a scenario whereby profits enjoy a robust, "v-shaped" recovery in 2002. We cited some of the reasons why we are cautious on the profit recovery this year. A further risk factor is a loss of confidence on the part of investors. If a profit recovery fails to materialize, we suspect there will be a growing concern that the aggressive monetary easing undertaken by the Federal Reserve throughout 2001 has not worked and the Fed is "pushing on a string" in trying to revive the economy. Such a loss of confidence would likely manifest itself in declining equity market valuations.

[SIDENOTE]

"OVERALL VALUATIONS REMAIN HIGH, SO WE ARE FOCUSED ON FINDING VALUE IN INDIVIDUAL SECURITIES. WE CONTINUE TO HAVE AN OVER WEIGHTING IN FINANCIAL STOCKS."

JOHN LINDENTHAL,
OPPENHEIMER (VALUE)

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The positive scenario for the market would be if the anticipated profit recovery becomes more evident in the early part of 2002, as opposed to the consensus view of a late-year recovery in earnings. This would set the stage for companies to potentially exceed consensus expectations for profits.

LINDENTHAL (OPPENHEIMER - VALUE): The biggest risk factor is a lack of an earnings rebound in sectors such as technology and telecommunications where earnings have been particularly hard hit over the past year. On the positive side, continued low inflation, interest rates and excess liquidity provided by the Federal Reserve would certainly help the market's direction.

BYRNE (WESTWOOD - VALUE): The potential problems in 2002 include still-high valuations, especially in many technology groups. The depressed economic condition in Japan and Argentina could spread to their neighbors. This would threaten the U.S. and European recoveries. The possibility for a dollar crisis due to overly rapid portfolio adjustments to the euro is a slight, but serious, possibility. The most positive potential surprise could be strong profits,

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modest economic activity and low inflation - the perfect recipe for a good stock market.

LAMCO: Industries and/or sectors have received a lot of attention lately, also pro and con. For instance, a stalwart like pharmaceuticals has been under pressure and the outlook for technology/telecom remains muted; consumer discretionary and housing have been strong. What is your own outlook for industries/sectors that are likely to lead the market and, conversely, those that are likely to lag? Let's hear first from the value managers on this one. What are your thoughts, Mark Donovan?

DONOVAN (BOSTON PARTNERS - VALUE): As we enter 2002, we don't believe there are any sectors of the market that stand out as being exceptionally undervalued or overvalued. A sector that is beginning to emerge as a potentially interesting investment opportunity is the energy sector. We are intrigued with this group for the simple reason that capital spending appears to have peaked in mid-2001 and is now on the decline. In any commodity business, declining expenditures tend to be a good first indicator to look for as a precursor to an upturn in the pricing cycle. Our enthusiasm for the group is tempered somewhat by the high level of inventories in both crude oil and natural gas that currently exist, as well as an uncertain near-term outlook for OPEC compliance with recently reduced production schedules.

LAMCO: What is Westwood's strategy vis-a-vis sectors, Susan Byrne?

BYRNE (WESTWOOD - VALUE): Westwood has positioned the portfolio with a barbell structure. On one end of the barbell, we are focused on cyclical companies that stand to benefit from the sooner-than-expected economic recovery. This is reflected in Westwood's positions in the basic materials, producer durables and energy sectors as well as our ownership of select technology stocks. On the other end of the barbell, we are focused on companies that offer attractive dividend yields. With money market rates at very low levels, total return-oriented investors may increasingly look to high yielding equities in the financial, utility and real estate investment trust sectors.

LAMCO: John Lindenthal, what is Oppenheimer's perspective?

LINDENTHAL (OPPENHEIMER - VALUE): Overall valuation levels have narrowed for both economic sectors and investment styles. The trade-off between value and growth over the past two years has run its course. The aggressive group rotation within sectors has evened out the valuation spread among groups. So again, we focus on individual stocks that are mispriced by investors where we have an insight on what will improve the company's operations.

LAMCO: Glen Bickerstaff, what is TCW's position regarding sectors?

BICKERSTAFF (TCW - GROWTH): As I mentioned earlier, we anticipate a resumption in spending for information technology products. The portfolio is well positioned with leading companies, like Dell, Microsoft, Maxim Integrated and Siebel, which will benefit from this development. Additionally, we continue to anticipate strong long-term demand for health care and financial services. Companies like Genentech and Charles Schwab have very compelling franchises. We do not believe in the sector rotation game. Everyone has access to the same macro information and, typically, whatever appears to be a sure thing is not.

[SIDENOTE]

"WESTWOOD BELIEVES THE FUNDAMENTALS ARE IN PLACE FOR ECONOMIC GROWTH AND A REBOUND IN CORPORATE EARNINGS. BENIGN INFLATION WILL BE SUPPORTIVE TO EQUITY VALUATIONS."

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SUSAN BYRNE,
WESTWOOD MANAGEMENT (VALUE)

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LAMCO: Frank Mastrapasqua, what are your expectations for leading and lagging sectors?

MASTRAPASQUA (MASTRAPASQUA & ASSOCIATES - GROWTH): Consumer spending should remain strong and capital expenditures should return to more normal levels. In the early stages of the upturn, traditional cyclical sectors should recover effectively, complementing an anticipated upturn in traditional growth industries. The laggards will be more pronounced in those companies that have failed to modernize during the downturn, compromised on R&D, or where directors have become complacent with mediocre management that lacks vision and effective execution.

LAMCO: This has been an interesting discussion. Let's focus on one more question: Since interest rates aren't likely to go much lower - and the economy, based on many forecasts, should be strong enough to turn in a good second half in 2002 - how much risk do you see if the Fed reverses course and begins to increase rates? Susan Byrne, thoughts, please?

BYRNE (WESTWOOD - VALUE): The degree of risk to the equity markets associated with an increase in official interest rates is dependent upon the conditions that lead to any rate increase. Because the real fed funds rate tends to track changes in real GDP, if the Fed raises the fed funds rate in response to higher real economic growth, then the impact on equity prices in general should be minimal. However, if an increase in the fed funds rate is in response to higher inflation, then the implications for the equity markets are more significant and a negative impact on equity prices would be expected.

LAMCO: Thank you. Mark Donovan, what are your thoughts about interest rates?

DONOVAN (BOSTON PARTNERS - VALUE): Interestingly, the interest rate futures markets are discounting a very high probability that the Fed will be in a tightening mode by the second half of this year, yet the equity markets seem to be putting a very low probability on this scenario judging from the market's P/E multiple of roughly 23 times. We would, therefore, conclude that the equity market does face the risk of a decline in its P/E ratio should the Fed begin to increase interest rates.

LAMCO: John Lindenthal, what is Oppenheimer's position on interest rates?

LINDENTHAL (OPPENHEIMER - VALUE): The risk of higher interest rates at some point could be substantial because price-to-earnings ratios are still high. Bonds would become more competitive with stocks and the Fed would be draining liquidity from the financial system, which is usually not good for equities. However, we do not foresee higher rates in the near term because of excess capacity, lower energy prices and restrained investment by corporations.

LAMCO: Let's wrap-up with the growth managers' point of view on interest rates. Glen Bickerstaff, share your thinking, please, and then let's hear from Frank Mastrapasqua.

BICKERSTAFF (TCW - GROWTH): We believe the Fed's primary role is to fight inflation. Inflation rates are very low and the long-term structural forces of inflation are very benign. So, in our view, there is no reason today for the Fed to raise rates. We do not anticipate that inflation or economic growth will be problematic for the foreseeable future and, thus, there would be no reason for

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the Fed to raise rates. We do not anticipate much benefit from further rate reductions, either. If one needs to borrow money, one would willingly pay more than prevailing rates. Alternatively, if one were nervous about their ability to repay a loan no rate short of zero would entice borrowing. If the Fed is unable to stimulate demand through further rate cuts, we have probably seen the end of the mortgage-refinancing boom. Washington seems unable to bring about a fiscal stimulus package but the economy may recover without it.

MASTRAPASQUA (MASTRAPASQUA & ASSOCIATES - GROWTH): I believe the impact would be significant. Should the Fed reverse interest rate policy, we would argue that the economic upturn would be stymied and severely limit the magnitude and duration of the market upturn.

LAMCO: Many thanks to all for an interesting session.

[SIDENOTE]

"EARNINGS ARE LIKELY TO SURPRISE ON THE UPSIDE, LED BY RECOVERY IN TECHNOLOGY, HEALTH CARE, FINANCIAL SERVICES, TRANSPORTATION AND BUSINESS SERVICE SECTORS."

FRANK MASTRAPASQUA,
MASTRAPASQUA & ASSOCIATES (GROWTH)

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INVESTMENT MANAGERS/PORTFOLIO CHARACTERISTICS

THE FUND'S FIVE INVESTMENT MANAGERS AND THE INVESTMENT STYLES THEY PRACTICE ARE:

BOSTON PARTNERS ASSET MANAGEMENT, L.P./VALUE

Companies with low price-to-earnings and price-to-book ratios where a catalyst for positive change has been identified.

OPPENHEIMER CAPITAL/VALUE

Companies that exhibit the ability to generate excess cash flow while earning high returns on invested capital that trade below their intrinsic value.

WESTWOOD MANAGEMENT CORPORATION/VALUE

Companies selling at reasonable valuations based on the firm's earnings projections, which are not yet reflected in consensus estimates.

MASTRAPASQUA & ASSOCIATES/GROWTH

Companies whose valuations do not reflect the potential for accelerated earnings and cash flow growth.

TCW INVESTMENT MANAGEMENT COMPANY/GROWTH

Companies that have superior sales growth, leading and/or rising market shares, and high and/or rising profit margins.

MANAGERS' DIFFERING INVESTMENT STYLES ARE REFLECTED IN PORTFOLIO CHARACTERISTICS:

The portfolio characteristics table below is a regular feature of the Fund's shareholder reports. It serves as a useful tool for understanding the value of a multi-managed portfolio. The characteristics are different for each of the Fund's five investment managers. These differences are a reflection of the fact that each pursues a different investment style. The shaded column highlights the characteristics of the Fund as a whole, while the final column shows portfolio

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characteristics for the S&P 500 Stock Index.

PORTFOLIO CHARACTERISTICS
AS OF DECEMBER 31, 2001
(UNAUDITED)

VALUE

INVESTMENT STYLE SPECTRUM

[GRAPHIC]

GROWTH

| | BOSTON PARTNERS | OPPEN- HEIMER | WESTWOOD | MASTRA- PASQUA | TC |
|-------------------------------|--------------------|------------------|----------|-------------------|------|
| Number of Holdings | 42 | 28 | 40 | 37 | 26 |
| Percent of Holdings in Top 10 | 38% | 56% | 28% | 37% | 57% |
| Weighted Average Market | | | | | |
| Capitalization (billions) | \$27 | \$67 | \$51 | \$83 | \$8 |
| Average Five-Year | | | | | |
| Earnings Per Share Growth | 11% | 17% | 12% | 22% | 29% |
| Dividend Yield | 1.3% | 1.5% | 2.1% | 0.3% | 0.2% |
| Price/Earnings Ratio | 15x | 17x | 16x | 35x | 38x |
| Price/Book Value Ratio | 2.8x | 3.6x | 2.9x | 7.0x | 7.1x |

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INVESTMENT GROWTH AS OF DECEMBER 31, 2001

[EDGAR REPRESENTATION OF MOUNTAIN CHART]

| | NAV | NAV DIVIDENDS REINVESTED | MARKET PRICE DIVIDENDS REINVESTED |
|-----------|-------|--------------------------------|---|
| 30-Oct-86 | 9.3 | 9.3 | 9.3 |
| 30-Nov-86 | 9.42 | 9.42 | 9.42 |
| 31-Dec-86 | 9.11 | 9.11 | 9.11 |
| 31-Jan-87 | 10.17 | 10.17 | 10.17 |
| 28-Feb-87 | 10.87 | 10.87 | 10.87 |
| 31-Mar-87 | 11.08 | 11.09 | 11.09 |
| 30-Apr-87 | 10.77 | 10.77 | 10.77 |
| 31-May-87 | 10.86 | 10.86 | 10.86 |
| 30-Jun-87 | 11.31 | 11.32 | 11.32 |
| 31-Jul-87 | 11.81 | 11.82 | 11.82 |
| 31-Aug-87 | 12.28 | 12.39 | 12.39 |
| 30-Sep-87 | 11.8 | 11.94 | 11.94 |

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| | | | |
|-----------|-------|-------|-------|
| 31-Oct-87 | 9.24 | 9.12 | 9.12 |
| 30-Nov-87 | 8.51 | 8.32 | 8.32 |
| 31-Dec-87 | 9.08 | 9.01 | 9.01 |
| 31-Jan-88 | 9.47 | 9.45 | 9.45 |
| 29-Feb-88 | 9.82 | 9.85 | 9.85 |
| 31-Mar-88 | 9.51 | 9.51 | 9.51 |
| 30-Apr-88 | 9.52 | 9.52 | 9.52 |
| 31-May-88 | 9.48 | 9.47 | 9.47 |
| 30-Jun-88 | 9.85 | 9.95 | 9.95 |
| 31-Jul-88 | 9.75 | 9.83 | 9.83 |
| 31-Aug-88 | 9.54 | 9.58 | 9.58 |
| 30-Sep-88 | 9.9 | 10.05 | 10.05 |
| 31-Oct-88 | 10.05 | 10.23 | 10.23 |
| 30-Nov-88 | 9.92 | 10.08 | 10.08 |
| 31-Dec-88 | 10.11 | 10.33 | 10.33 |
| 31-Jan-89 | 10.65 | 11.01 | 11.01 |
| 28-Feb-89 | 10.49 | 10.81 | 10.81 |
| 31-Mar-89 | 10.64 | 11.04 | 11.04 |
| 30-Apr-89 | 11.05 | 11.56 | 11.56 |
| 31-May-89 | 11.44 | 12.07 | 12.07 |
| 30-Jun-89 | 11.35 | 11.99 | 11.99 |
| 31-Jul-89 | 12.09 | 12.98 | 12.98 |
| 31-Aug-89 | 12.31 | 13.26 | 13.26 |
| 30-Sep-89 | 12.35 | 13.38 | 13.38 |
| 31-Oct-89 | 12.14 | 13.09 | 13.09 |
| 30-Nov-89 | 12.25 | 13.25 | 13.25 |
| 31-Dec-89 | 12.35 | 13.44 | 13.44 |
| 31-Jan-90 | 11.79 | 12.66 | 12.66 |
| 28-Feb-90 | 11.88 | 12.78 | 12.78 |
| 31-Mar-90 | 12.13 | 13.18 | 13.18 |
| 30-Apr-90 | 11.99 | 12.98 | 12.98 |
| 31-May-90 | 12.91 | 14.3 | 14.3 |
| 30-Jun-90 | 12.96 | 14.42 | 14.42 |
| 31-Jul-90 | 12.93 | 14.38 | 14.38 |
| 31-Aug-90 | 12.15 | 13.22 | 13.22 |
| 30-Sep-90 | 11.69 | 12.58 | 12.58 |
| 31-Oct-90 | 11.67 | 12.55 | 12.55 |
| 30-Nov-90 | 12.23 | 13.41 | 13.41 |
| 31-Dec-90 | 12.59 | 14 | 14 |
| 31-Jan-91 | 13.04 | 14.71 | 14.71 |
| 28-Feb-91 | 13.71 | 15.76 | 15.76 |
| 31-Mar-91 | 14.1 | 16.41 | 16.41 |
| 30-Apr-91 | 14.03 | 16.3 | 16.3 |
| 31-May-91 | 14.54 | 17.12 | 17.12 |
| 30-Jun-91 | 14.04 | 16.32 | 16.32 |
| 31-Jul-91 | 14.52 | 17.12 | 17.12 |
| 31-Aug-91 | 14.56 | 17.19 | 17.19 |
| 30-Sep-91 | 14.76 | 17.54 | 17.54 |
| 31-Oct-91 | 14.95 | 17.86 | 17.86 |
| 30-Nov-91 | 14.35 | 16.84 | 16.84 |
| 31-Dec-91 | 15.89 | 19.5 | 19.5 |
| 31-Jan-92 | 15.69 | 19.15 | 19.15 |
| 29-Feb-92 | 15.46 | 18.75 | 18.75 |
| 31-Mar-92 | 15.52 | 18.86 | 18.86 |
| 30-Apr-92 | 15.62 | 19.04 | 20.95 |
| 31-May-92 | 15.72 | 19.22 | 21.14 |
| 30-Jun-92 | 15.47 | 18.76 | 20.64 |
| 31-Jul-92 | 15.92 | 19.58 | 21.55 |
| 31-Aug-92 | 15.44 | 18.7 | 20.58 |
| 30-Sep-92 | 15.94 | 19.63 | 21.6 |
| 31-Oct-92 | 16.04 | 19.81 | 21.81 |
| 30-Nov-92 | 16.17 | 20.06 | 22.08 |

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| | | | |
|-----------|-------|-------|-------|
| 31-Dec-92 | 16.54 | 20.75 | 22.84 |
| 31-Jan-93 | 16.62 | 20.91 | 23.01 |
| 28-Feb-93 | 16.46 | 20.6 | 22.67 |
| 31-Mar-93 | 16.78 | 21.22 | 23.36 |
| 30-Apr-93 | 16.45 | 20.57 | 22.64 |
| 31-May-93 | 16.55 | 20.77 | 22.86 |
| 30-Jun-93 | 16.85 | 21.36 | 23.52 |
| 31-Jul-93 | 16.83 | 21.32 | 23.47 |
| 31-Aug-93 | 17.02 | 21.71 | 23.9 |
| 30-Sep-93 | 17.35 | 22.38 | 24.64 |
| 31-Oct-93 | 17.4 | 22.48 | 26.25 |
| 30-Nov-93 | 17.17 | 21.99 | 25.68 |
| 31-Dec-93 | 17.41 | 22.47 | 26.24 |
| 31-Jan-94 | 17.78 | 23.27 | 27.17 |
| 28-Feb-94 | 17.35 | 22.34 | 26.09 |
| 31-Mar-94 | 17.12 | 21.82 | 25.47 |
| 30-Apr-94 | 17.2 | 21.99 | 25.68 |
| 31-May-94 | 17.07 | 21.71 | 25.34 |
| 30-Jun-94 | 17 | 21.52 | 25.12 |
| 31-Jul-94 | 17.3 | 22.2 | 25.92 |
| 31-Aug-94 | 17.76 | 23.27 | 27.16 |
| 30-Sep-94 | 17.46 | 22.57 | 27.85 |
| 31-Oct-94 | 17.63 | 22.96 | 28.34 |
| 30-Nov-94 | 16.94 | 21.36 | 26.35 |
| 31-Dec-94 | 17.27 | 22.18 | 27.36 |
| 31-Jan-95 | 17.41 | 22.51 | 27.78 |
| 28-Feb-95 | 17.5 | 22.73 | 28.04 |
| 31-Mar-95 | 18.08 | 24.12 | 29.77 |
| 30-Apr-95 | 18.23 | 24.49 | 30.22 |
| 31-May-95 | 18.38 | 24.86 | 30.67 |
| 30-Jun-95 | 19.03 | 26.47 | 32.66 |
| 31-Jul-95 | 19.45 | 27.53 | 33.97 |
| 31-Aug-95 | 19.24 | 27 | 33.32 |
| 30-Sep-95 | 19.82 | 28.51 | 35.17 |
| 31-Oct-95 | 19.7 | 28.2 | 34.79 |
| 30-Nov-95 | 19.81 | 28.48 | 35.14 |
| 31-Dec-95 | 20.08 | 29.19 | 36.01 |
| 31-Jan-96 | 20.44 | 30.14 | 37.19 |
| 29-Feb-96 | 20.62 | 30.61 | 37.78 |
| 31-Mar-96 | 20.76 | 30.98 | 38.23 |
| 30-Apr-96 | 20.99 | 31.61 | 39 |
| 31-May-96 | 20.96 | 31.53 | 38.9 |
| 30-Jun-96 | 21.17 | 32.15 | 39.67 |
| 31-Jul-96 | 20.52 | 30.33 | 37.44 |
| 31-Aug-96 | 20.62 | 30.61 | 37.78 |
| 30-Sep-96 | 21.63 | 33.48 | 41.31 |
| 31-Oct-96 | 21.8 | 33.96 | 41.91 |
| 30-Nov-96 | 22.58 | 36.28 | 44.78 |
| 31-Dec-96 | 22.31 | 35.52 | 43.83 |
| 31-Jan-97 | 23.01 | 37.6 | 46.4 |
| 28-Feb-97 | 22.91 | 37.3 | 46.03 |
| 31-Mar-97 | 22.41 | 35.79 | 44.16 |
| 30-Apr-97 | 22.87 | 37.19 | 45.9 |
| 31-May-97 | 23.45 | 38.96 | 48.08 |
| 30-Jun-97 | 24.31 | 41.62 | 51.36 |
| 31-Jul-97 | 25.29 | 44.68 | 55.15 |
| 31-Aug-97 | 24.34 | 41.71 | 51.48 |
| 30-Sep-97 | 25.36 | 44.92 | 55.44 |
| 31-Oct-97 | 24.86 | 43.31 | 53.46 |
| 30-Nov-97 | 25.21 | 44.45 | 54.88 |
| 31-Dec-97 | 25.37 | 44.98 | 55.53 |
| 31-Jan-98 | 25.35 | 44.91 | 55.45 |

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| | | | |
|-----------|-------|-------|-------|
| 28-Feb-98 | 26.45 | 48.63 | 60.03 |
| 31-Mar-98 | 27.2 | 51.19 | 63.21 |
| 30-Apr-98 | 27.33 | 51.64 | 63.77 |
| 31-May-98 | 26.45 | 48.6 | 62.44 |
| 30-Jun-98 | 27.19 | 51.29 | 65.88 |
| 31-Jul-98 | 26.89 | 50.22 | 64.51 |
| 31-Aug-98 | 24.23 | 40.76 | 52.36 |
| 30-Sep-98 | 25.37 | 44.88 | 57.65 |
| 31-Oct-98 | 26.21 | 47.96 | 61.6 |
| 30-Nov-98 | 26.5 | 49.02 | 62.96 |
| 31-Dec-98 | 27.67 | 53.47 | 68.67 |
| 31-Jan-99 | 27.72 | 53.66 | 68.91 |
| 28-Feb-99 | 27.24 | 51.85 | 66.59 |
| 31-Mar-99 | 27.75 | 53.86 | 69.17 |
| 30-Apr-99 | 28.56 | 56.98 | 73.19 |
| 31-May-99 | 27.96 | 54.67 | 70.21 |
| 30-Jun-99 | 28.88 | 58.38 | 74.98 |
| 31-Jul-99 | 28.27 | 55.96 | 71.88 |
| 31-Aug-99 | 27.48 | 52.83 | 67.85 |
| 30-Sep-99 | 27.48 | 52.91 | 67.95 |
| 31-Oct-99 | 28.14 | 55.6 | 71.41 |
| 30-Nov-99 | 27.92 | 54.7 | 70.25 |
| 31-Dec-99 | 28.86 | 58.93 | 75.68 |
| 31-Jan-00 | 28.39 | 56.95 | 73.14 |
| 29-Feb-00 | 28.26 | 56.4 | 72.44 |
| 31-Mar-00 | 29.65 | 62.65 | 80.47 |
| 30-Apr-00 | 29.48 | 61.92 | 79.52 |
| 31-May-00 | 29.22 | 60.79 | 78.08 |
| 30-Jun-00 | 29.62 | 62.71 | 80.54 |
| 31-Jul-00 | 29.51 | 62.22 | 79.91 |
| 31-Aug-00 | 30.12 | 64.94 | 83.4 |
| 30-Sep-00 | 30.15 | 65.25 | 83.8 |
| 31-Oct-00 | 30.33 | 66.07 | 84.86 |
| 30-Nov-00 | 28.89 | 59.48 | 76.39 |
| 31-Dec-00 | 29.87 | 64.1 | 82.33 |
| 31-Jan-01 | 30.03 | 64.86 | 83.29 |
| 28-Feb-01 | 28.93 | 59.74 | 76.72 |
| 31-Mar-01 | 28.09 | 55.67 | 71.5 |
| 30-Apr-01 | 28.99 | 60.03 | 77.09 |
| 31-May-01 | 29.09 | 60.5 | 77.7 |
| 30-Jun-01 | 28.88 | 59.46 | 76.36 |
| 31-Jul-01 | 28.6 | 58.07 | 74.58 |
| 31-Aug-01 | 27.9 | 54.89 | 70.5 |
| 30-Sep-01 | 26.7 | 48.73 | 62.59 |
| 31-Oct-01 | 27.08 | 50.68 | 65.09 |
| 30-Nov-01 | 27.97 | 55.25 | 70.96 |
| 31-Dec-01 | 28.11 | 55.99 | 71.91 |

INCLUDES ADDITIONAL INVESTMENTS
MADE THROUGH RIGHTS OFFERINGS \$71.91 (2)

NET ASSET VALUE OF SHARES ACQUIRED
THROUGH DISTRIBUTION REINVESTMENT \$55.99 (2)

NET ASSET VALUE PER SHARE
PLUS DISTRIBUTIONS PAID \$28.11 (1)

1. Net asset value (NAV) of one share of All-Star as of 12/31/01 plus

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distributions paid since inception.

2. To evaluate your investment in the Fund, these values should be used. Each value shows how your investment valued at NAV has fared by reinvesting the Fund's distributions. The upper value includes additional investments made through the rights offerings in 1992, 1993, 1994 and 1998.

The above chart illustrates the net asset value (NAV) growth of an original share of the Fund since the Fund's inception date through December 31, 2001. The bottom region of the chart reflects NAV growth assuming all distributions were received in cash and not reinvested back into the Fund. An original share grew to \$28.11 (current NAV of \$10.65 plus distributions paid since inception totaling \$17.46, which includes tax credits of \$0.67 on retained capital gains).

Moving up the chart, the middle region depicts additional value added through the reinvestment and compounding of distributions. An original share with distributions reinvested grew to \$55.99 (5.257 shares times the current NAV of \$10.65).

On four occasions, the Fund has allowed the purchase of additional shares of the Fund at a discount through rights offerings. The top region illustrates the additional value added assuming participation in all the rights offerings and the reinvestment of all distributions. An original share grew to \$71.91 (6.752 shares times the current NAV of \$10.65).

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TABLE OF PER-SHARE VALUES, DISTRIBUTIONS AND REINVESTMENTS

| YEAR | SHARES OWNED AT BEGINNING OF YEAR | PER SHARE DISTRIBUTIONS | SHARES PURCHASED THROUGH REINVESTMENT PROGRAM | SHARES ACQUIRED THROUGH RIGHTS OFFERING | SHARES OWNED AT END OF YEAR | NAV (1) AT END OF YEAR | TOTAL NAV OF SHARES OWNED |
|------|-----------------------------------|-------------------------|---|---|-----------------------------|------------------------|---------------------------|
| 1987 | 1.000 | \$1.18 | 0.140 | - | 1.140 | \$7.90 | \$9.01 |
| 1988 | 1.140 | 0.64 | 0.107 | - | 1.247 | 8.29 | 10.34 |
| 1989 | 1.247 | 0.95 | 0.156 | - | 1.403 | 9.58 | 13.44 |
| 1990 | 1.403 | 0.90 | 0.167 | - | 1.570 | 8.92 | 14.00 |
| 1991 | 1.570 | 1.02 | 0.171 | - | 1.741 | 11.20 | 19.50 |
| 1992 | 1.741 | 1.07 | 0.199 | 0.179 (2) | 2.119 | 10.78 | 22.84 |
| 1993 | 2.119 | 1.25 (3) | 0.266 | 0.138 (2) | 2.523 | 10.40 | 26.24 |
| 1994 | 2.523 | 1.00 | 0.277 | 0.155 (2) | 2.955 | 9.26 | 27.36 |
| 1995 | 2.955 | 1.04 | 0.310 | - | 3.265 | 11.03 | 36.01 |
| 1996 | 3.265 | 1.31 (3) | 0.403 | - | 3.668 | 11.95 | 43.83 |
| 1997 | 3.668 | 1.69 (3) | 0.501 | - | 4.169 | 13.32 | 55.53 |
| 1998 | 4.169 | 1.40 | 0.487 | 0.173 (2) | 4.829 | 14.22 | 68.67 |
| 1999 | 4.829 | 1.39 | 0.569 | - | 5.398 | 14.02 | 75.68 |
| 2000 | 5.398 | 1.42 | 0.651 | - | 6.049 | 13.61 | 82.33 |
| 2001 | 6.049 | 1.20 | 0.703 | - | 6.752 | 10.65 | 71.91 |

1. Net Asset Value.

2. 1992: Rights offering completed in April 1992. One share offered at \$10.05 for every 10 shares owned.

1993: Rights offering completed in October 1993. One share offered at \$10.41 for every 15 shares owned.

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1994: Rights offering completed in September 1994. One share offered at \$9.14 for every 15 shares owned.

1998: Rights offering completed in April 1998. One share offered at \$12.83 for every 20 shares owned.

3. 1993: Includes the \$0.18 per share tax credit passed through to shareholders, which was assumed to be reinvested at the year-end market price of \$11.125.
- 1996: Includes the \$0.13 per share tax credit passed through to shareholders, which was assumed to be reinvested at the year-end market price of \$11.25.
- 1997: Includes the \$0.36 per share tax credit passed through to shareholders, which was assumed to be reinvested at the year-end market price of \$13.313.

DISTRIBUTION POLICY

Liberty All-Star Equity Fund's current policy, in effect since 1988, is to pay distributions on its common shares totaling approximately 10 percent of its net asset value per year, payable in four quarterly installments of 2.5 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. If, for any calendar year, the total distributions required by the 10 percent pay-out policy exceed the Fund's net investment income and net realized capital gains, the excess will generally be treated as a tax-free 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 minimum amount required to be distributed under the 10 percent pay-out 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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TOP 50 HOLDINGS

| RANK AS OF 12/31/01 | RANK AS OF 9/30/01 | SECURITY NAME |
|------------------------|-----------------------|---------------------------------------|
| 1 | 1 | Freddie Mac |
| 2 | 2 | Citigroup, Inc. |
| 3 | 3 | The Progressive Corp. |
| 4 | 6 | Microsoft Corp. |
| 5 | 14 | Dell Computer Corp. |
| 6 | 5 | Sprint Corp. (FON Group) |
| 7 | 13 | Genentech, Inc. |
| 8 | 7 | Amgen, Inc. |
| 9 | 11 | Wal-Mart Stores, Inc. |
| 10 | 8 | Countrywide Credit Industries, Inc. |
| 11 | 17 | The Home Depot, Inc. |
| 12 | 4 | XL Capital Ltd. |
| 13 | 18 | International Business Machines Corp. |
| 14 | 29 | Clear Channel Communications, Inc. |
| 15 | 31 | Maxim Integrated Products, Inc. |
| 16 | 15 | American International Group, Inc. |

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| | | |
|----|-----|--------------------------------------|
| 17 | 27 | Applied Materials, Inc. |
| 18 | 65 | Tyco International Ltd. |
| 19 | 19 | Intel Corp. |
| 20 | 20 | Marathon Oil Corp. |
| 21 | 59 | ChevronTexaco Corp.* |
| 22 | 24 | General Electric Co. |
| 23 | 26 | Alcoa, Inc. |
| 24 | 12 | Pfizer, Inc. |
| 25 | 95 | Siebel Systems, Inc. |
| 26 | 23 | McDonald's Corp. |
| 27 | 25 | American Home Products Corp. |
| 28 | 28 | Verizon Communications, Inc. |
| 29 | 34 | QUALCOMM, Inc. |
| 30 | 82 | Conoco, Inc. |
| 31 | 58 | Agilent Technologies, Inc. |
| 32 | 40 | IDEC Pharmaceuticals Corp. |
| 33 | 39 | Hewlett-Packard Co. |
| 34 | 47 | Cisco Systems, Inc. |
| 35 | 36 | The Gillette Co. |
| 36 | 73 | 3Com Corp. |
| 37 | 130 | Network Appliance, Inc. |
| 38 | 49 | Stilwell Financial, Inc. |
| 39 | 10 | Pharmacia Corp. |
| 40 | 30 | Wells Fargo & Co. |
| 41 | 22 | AFLAC, Inc. |
| 42 | 21 | UST, Inc. |
| 43 | 43 | Biovail Corp. |
| 44 | 86 | Xilinx, Inc. |
| 45 | 53 | Genzyme Corp. |
| 46 | 61 | Golden West Financial Corp. |
| 47 | New | Transocean Sedco Forex, Inc. |
| 48 | 35 | FleetBoston Financial Corp. |
| 49 | 45 | The Boeing Co. |
| 50 | 38 | Minnesota Mining & Manufacturing Co. |

*Result of merger between Chevron Corp. and Texaco, Inc.

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MAJOR STOCK CHANGES IN THE FOURTH QUARTER

The following are the major (\$4.0 million or more) stock changes--both purchases and sales--that were made in the Fund's portfolio during the fourth quarter of 2001.

| SECURITY NAME | PURCHASES (SALES) | SHA |
|--------------------------|-------------------|-----|
| ----- | | |
| PURCHASES | | |
| ConAgra Foods, Inc. | 239,100 | |
| Dominion Resources, Inc. | 99,000 | |
| FedEx Corp. | 100,000 | |
| FirstEnergy Corp. | 167,800 | |
| General Motors Corp. | 119,200 | |

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| | |
|------------------------------|---------|
| Prudential Financial, Inc. | 174,300 |
| Transocean Sedco Forex, Inc. | 239,500 |
| Tyco International Ltd. | 92,400 |

SALES

| | |
|-------------------------------------|-----------|
| Anheuser-Busch Companies, Inc. | (136,500) |
| Avon Products, Inc. | (338,700) |
| Baxter International, Inc. | (100,000) |
| CMS Energy Corp. | (232,200) |
| J.P. Morgan Chase & Co. | (158,250) |
| Masco Corp. | (340,000) |
| Pharmacia Corp. | (149,240) |
| Reliant Energy, Inc. | (189,300) |
| Teva Pharmaceutical Industries Ltd. | (70,000) |
| The Williams Companies, Inc. | (182,437) |
| XL Capital Ltd. | (120,600) |

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SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2001

COMMON STOCKS (95.8%)

CONSUMER DISCRETIONARY (10.0%)

AUTOMOBILE (0.5%)

General Motors Corp. 11

HOTELS, RESTAURANTS & LEISURE (1.9%)

Carnival Corp. 20

International Game Technology (a) 8

McDonald's Corp. 39

MEDIA (3.6%)

AOL Time Warner, Inc. (a) 17

Clear Channel Communications, Inc. (a) 26

Gannett Co., Inc. 10

Pixar, Inc. (a) 12

The Reader's Digest Association, Inc. 22

The Walt Disney Co. 22

MULTI-LINE RETAIL (2.8%)

May Department Stores Co. 10

Sears, Roebuck & Co. 12

Target Corp. 16

Wal-Mart Stores, Inc. 25

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| | |
|-------------------------------|----|
| SPECIALTY RETAIL (1.2%) | |
| The Home Depot, Inc. | 27 |
| CONSUMER STAPLES (3.9%) | |
| FOOD & DRUG RETAILING (0.9%) | |
| CVS Corp. | 12 |
| The Kroger Corp. (a) | 30 |
| FOOD PRODUCTS (1.0%) | |
| ConAgra Foods, Inc. | 23 |
| Heinz (H.J.) Co. | 14 |
| PERSONAL PRODUCTS (0.8%) | |
| The Gillette Co. | 28 |
| TOBACCO (1.2%) | |
| Philip Morris Companies, Inc. | 12 |
| UST, Inc. | 24 |

See Notes to Schedule of Investments.

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| | |
|------------------------------------|----|
| COMMON STOCKS (CONTINUED) | SH |
| ----- | |
| ENERGY (6.9%) | |
| ENERGY EQUIPMENT & SERVICES (1.3%) | |
| Nabors Industries, Inc. (a) | 17 |
| Transocean Sedco Forex, Inc. | 23 |
| OIL & GAS (5.6%) | |
| Anadarko Petroleum Corp. | 10 |
| Apache Corp. | 11 |
| Burlington Resources, Inc. | 6 |
| ChevronTexaco Corp. | 13 |
| Conoco, Inc., Class A | 36 |
| Devon Energy Corp. | 13 |
| Exxon Mobil Corp. | 15 |

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| | |
|--------------------------|----|
| Marathon Oil Corp. | 41 |
| PanCanadian Energy Corp. | 11 |

FINANCIALS (23.6%)

BANKS (5.3%)

| | |
|-----------------------------|----|
| Bank of America Corp. | 9 |
| Comerica, Inc. | 10 |
| FleetBoston Financial Corp. | 2 |
| Golden West Financial Corp. | 1 |
| KeyCorp | 24 |
| SunTrust Banks, Inc. | 8 |
| Wachovia Corp. | 19 |
| Washington Mutual, Inc. | 17 |
| Wells Fargo & Co. | 20 |

DIVERSIFIED FINANCIALS (10.0%)

| | |
|-------------------------------------|----|
| American Express Co. | 16 |
| The Charles Schwab Corp. | 41 |
| Citigroup, Inc. | 62 |
| Countrywide Credit Industries, Inc. | 35 |
| Freddie Mac | 49 |
| Merrill Lynch & Co., Inc. | 9 |
| Morgan Stanley Dean Witter & Co. | 5 |
| Prudential Financial, Inc. (a) | 17 |
| Stilwell Financial, Inc. | 33 |

See Notes to Schedule of Investments.

COMMON STOCKS (CONTINUED)

INSURANCE (7.8%)

| | |
|---|----|
| ACE Ltd. | 12 |
| AFLAC, Inc. | 35 |
| Allmerica Financial Corp. | 12 |
| American International Group, Inc. | 16 |
| The Hartford Financial Services Group, Inc. | 8 |
| MBIA, Inc. | 9 |
| MetLife, Inc. | 18 |
| The Progressive Corp. | 17 |
| XL Capital Ltd., Class A | 15 |

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REAL ESTATE (0.5%)

Kimco Realty Corp. 8
 Vornado Realty Trust 6

HEALTH CARE (12.6%)

BIOTECHNOLOGY (6.3%)

Amgen, Inc. (a) 27
 Biogen, Inc. (a) 12
 Genentech, Inc. (a) 28
 Genzyme Corp. (a) 13
 IDEC Pharmaceuticals Corp. (a) 14
 Invitrogen Corp. (a) 9
 MedImmune, Inc. (a) 10
 Protein Design Labs, Inc. (a) 14

HEALTH CARE EQUIPMENT & SUPPLIES (0.8%)

Applera Corp. - Applied Biosystems Group 6
 Becton, Dickinson & Co. 20

HEALTH CARE PROVIDERS & SERVICES (1.2%)

Anthem, Inc. (a) 7
 CIGNA Corp. 4
 WellPoint Health Networks, Inc. (a) 4

PHARMACOLOGY (4.3%)

American Home Products Corp. 17
 Biovail Corp. (a) 14
 Eli Lilly and Co. 9
 Pfizer, Inc. 27
 Pharmacia Corp. 20
 Schering-Plough Corp. 10

See Notes to Schedule of Investments

COMMON STOCKS (CONTINUED)

SH

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INDUSTRIALS (7.9%)

AEROSPACE & DEFENSE (1.7%)

The Boeing Co. 20

General Dynamics Corp. 7

United Technologies Corp. 9

AIR FREIGHT & COURIERS (1.0%)

CP Holders, Inc. 16

FedEx Corp. 10

AIRLINES (0.6%)

AMR Corp. (a) 10

Southwest Airlines Co. 25

COMMERCIAL SERVICES & SUPPLIES (0.7%)

Paychex, Inc. 21

INDUSTRIAL CONGLOMERATES (2.8%)

General Electric Co. 27

Minnesota Mining & Manufacturing Co. 6

Tyco International Ltd. 21

MACHINERY (0.5%)

Caterpillar, Inc. 11

ROAD & RAIL (0.6%)

Union Pacific Corp. 11

INFORMATION TECHNOLOGY (22.7%)

COMMUNICATIONS EQUIPMENT (3.3%)

Brocade Communications Systems, Inc. (a) 14

Cisco Systems, Inc. (a) 53

Juniper Networks, Inc. (a) 5

Lucent Technologies, Inc. (a) 31

QUALCOMM, Inc. (a) 20

3Com Corp. (a) 1,43

COMPUTERS & PERIPHERALS (5.8%)

Apple Computer, Inc. (a) 26

Dell Computer Corp. (a) 65

EMC Corp. (a) 32

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See Notes to Schedule of Investments.

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COMMON STOCKS (CONTINUED)

SH

COMPUTERS & PERIPHERALS (CONTINUED)

| | |
|---------------------------------------|----|
| Hewlett-Packard Co. | 48 |
| International Business Machines Corp. | 11 |
| Network Appliance, Inc. (a) | 41 |
| Sun Microsystems, Inc. (a) | 34 |

ELECTRONIC EQUIPMENT & INSTRUMENTS (2.2%)

| | |
|--------------------------------|----|
| Agilent Technologies, Inc. (a) | 35 |
| Millipore Corp. | 12 |
| Solelectron Corp. (a) | 35 |
| Waters Corp. (a) | 8 |

IT CONSULTING & SERVICES (0.7%)

| | |
|-------------------------------|---|
| Computer Sciences Corp. (a) | 5 |
| Electronic Data Systems Corp. | 7 |

SEMICONDUCTOR EQUIPMENT & PRODUCTS (6.1%)

| | |
|-------------------------------------|----|
| Analog Devices, Inc. (a) | 11 |
| Applied Materials, Inc. (a) | 32 |
| Broadcom Corp., Class A (a) | 13 |
| Cypress Semiconductor Corp. (a) | 11 |
| Intel Corp. | 39 |
| Maxim Integrated Products, Inc. (a) | 25 |
| National Semiconductor Corp. (a) | 5 |
| Novellus Systems, Inc. (a) | 9 |
| Texas Instruments, Inc. | 14 |
| Xilinx, Inc. (a) | 21 |

SOFTWARE (4.6%)

| | |
|---------------------------------|----|
| Microsoft Corp. (a) | 34 |
| Oracle Corp. (a) | 37 |
| Parametric Technology Corp. (a) | 48 |
| PeopleSoft, Inc. (a) | 12 |
| Siebel Systems, Inc. (a) | 38 |

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VERITAS Software Corp. (a)

10

MATERIALS (3.0%)

CHEMICALS (0.5%)

Syngenta AG (a) (b)

57

See Notes to Schedule of Investments.

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COMMON STOCKS (CONTINUED)

SH

METALS & MINING (1.6%)

Alcoa, Inc.

30

United States Steel Corp.

36

PAPER & FOREST PRODUCTS (0.9%)

Georgia-Pacific Group.

20

International Paper Co.

11

TELECOMMUNICATION SERVICES (2.8%)

DIVERSIFIED TELECOMMUNICATION SERVICES (2.8%)

Sprint Corp. (FON Group)

78

Verizon Communications, Inc.

22

WorldCom, Inc. - WorldCom Group (a)

36

UTILITIES (2.4%)

ELECTRIC UTILITIES (1.8%)

Dominion Resources, Inc.

9

Duke Energy Corp.

7

FirstEnergy Corp.

16

Progress Energy, Inc.

13

GAS UTILITIES (0.6%)

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El Paso Corp.

14

TOTAL COMMON STOCKS (Cost of \$987,154,842)

PREFERRED STOCK (0.4%)

CONSUMER DISCRETIONARY (0.4%)

MEDIA (0.4%)

The News Corp. Ltd. (b) (Cost \$4,611,740)

15

See Notes to Schedule of Investments

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| SHORT-TERM INVESTMENTS (4.7%) | INTEREST RATE | MATURITY DATE | PA VA |
|--|------------------|------------------|----------|
| ----- | | | |
| COMMERCIAL PAPER (2.4%) | | | |
| American Express | 1.75% | 01/15/02 | \$2,50 |
| | 1.76 | 01/17/02 | 4,00 |
| | 1.95 | 01/31/02 | 3,00 |
| Household Finance Corp | 1.75 | 01/03/02 | 2,50 |
| | 1.83 | 01/22/02 | 3,50 |
| | 1.94 | 01/08/02 | 2,50 |
| | 1.94 | 01/10/02 | 2,00 |
| Tyco Capital Corp | 1.80 | 01/24/02 | 3,50 |
| | 1.81 | 01/29/02 | 4,00 |
| TOTAL COMMERCIAL PAPER (COST \$27,474,997) | | | |

REPURCHASE AGREEMENT (2.3%)

Repurchase Agreement with SBC Warburg Ltd., dated 12/31/01 at 1.73% to be repurchased at \$25,903,489 on 01/02/02, collateralized by U.S. Treasury Bonds and/or notes with various maturities to 2027, with a current market value of \$26,349,087. (Cost \$25,901,000)

25,90

TOTAL SHORT-TERM INVESTMENTS (COST \$53,375,997)

TOTAL INVESTMENTS (100.9%) (COST \$1,045,142,579) (c)
OTHER ASSETS AND LIABILITIES, NET (-0.9%)

NET ASSETS (100.0%)

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NET ASSET VALUE PER SHARE (106,447,090 SHARES OUTSTANDING)

NOTES TO SCHEDULE OF INVESTMENTS:

- (a) Non-income producing security.
- (b) Represents an American Depositary Receipt.
- (c) Cost for federal income tax purposes is \$1,049,973,862. The difference between cost for Generally Accepted Accounting Principles and cost on a Tax basis is related to timing differences. Realized losses have been deferred for Tax purposes and cost adjusted accordingly.
Gross unrealized appreciation and depreciation of investments at December 31, 2001 is as follows:

| | |
|-------------------------------|----------------|
| Gross unrealized appreciation | \$ 211,974,513 |
| Gross unrealized depreciation | (118,343,614) |
| | ----- |
| Net unrealized appreciation | \$ 93,630,899 |
| | ===== |

See Notes to Financial Statements.

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FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES DECEMBER 31, 2001

ASSETS:

Investments at market value (identified cost \$1,045,142,579)
Receivable for investments sold
Dividends and interest receivable
Other assets

TOTAL ASSETS

LIABILITIES:

Payable due to custodian bank
Payable for investments purchased
Distributions payable to shareholders
Management, administrative and bookkeeping fees payable
Accrued expenses

TOTAL LIABILITIES

NET ASSETS

NET ASSETS REPRESENTED BY:

Paid-in capital (unlimited number of shares of beneficial interest without par value authorized, 106,447,090 shares outstanding)

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Accumulated net realized gain on investments less distributions
Net unrealized appreciation on investments

TOTAL NET ASSETS APPLICABLE TO OUTSTANDING SHARES
OF BENEFICIAL INTEREST (\$10.65 PER SHARE)

See Notes to Financial Statements.

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STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2001

INVESTMENT INCOME:

Dividends
Interest

TOTAL INVESTMENT INCOME (NET OF FOREIGN TAXES
WITHHELD AT SOURCE WHICH AMOUNTED TO \$47,901)

EXPENSES:

Management fee
Administrative fee
Bookkeeping and pricing fees
Custodian and transfer agent fees
Shareholder communication expenses
Legal and audit fees
Trustees' fees and expense
NYSE fee
Miscellaneous expenses

TOTAL EXPENSES

CUSTODY EARNINGS CREDIT

NET EXPENSES

NET INVESTMENT INCOME

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:

Net realized gain on investment transactions:
Proceeds from sales
Cost of investments sold

Net realized gain on investment transactions

Net unrealized appreciation on investments:
Beginning of year
End of year

Change in unrealized appreciation-net

NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS

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See Notes to Financial Statements.

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STATEMENT OF CHANGES IN NET ASSETS

OPERATIONS:

| | |
|---|--------|
| Net investment income | \$ 3,1 |
| Net realized gain on investment transactions | 26,0 |
| Change in unrealized appreciation--net | (205,3 |
| <hr/> | |
| Net increase (decrease) in net assets resulting from operations | (176,0 |

DISTRIBUTIONS DECLARED FROM:

| | |
|----------------------------------|--------|
| Net investment income | (3,1 |
| Net realized gain on investments | (119,9 |
| <hr/> | |
| Total distributions | (123,1 |

CAPITAL TRANSACTIONS:

| | |
|--|--------|
| Increase in net assets from capital share transactions | 56,1 |
| <hr/> | |
| Total decrease in net assets | (243,0 |

NET ASSETS:

| | |
|-------------------|-----------|
| Beginning of year | 1,376,1 |
| <hr/> | |
| End of year | \$1,133,1 |

See Notes to Financial Statements.

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FINANCIAL HIGHLIGHTS

| | YEAR ENDED DECEMBER 31, | | | |
|--------------------------------------|-------------------------|---------|---------|-----|
| | 2001 | 2000 | 1999 | 19 |
| | <hr/> | | | |
| PER SHARE OPERATING PERFORMANCE: | | | | |
| Net asset value at beginning of year | \$13.61 | \$14.02 | \$14.22 | \$1 |
| | <hr/> | | | |

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Income from Investment Operations:

| | | | |
|---|---------------|---------------|---------------|
| Net investment income | 0.03 | 0.05 | 0.05 |
| Net realized and unrealized gain (loss) on investments | (1.79) | 0.96 | 1.22 |
| Provision for federal income tax | -- | -- | -- |
| Total from Investment Operations | (1.76) | 1.01 | 1.27 |
| Less Distributions from: | | | |
| Net investment income | (0.03) | (0.06) | (0.05) |
| Realized capital gain | (1.17) | (1.36) | (1.34) |
| Return of capital | -- | -- | -- |
| Total Distributions | (1.20) | (1.42) | (1.39) |
| Change due to rights offering (b) | -- | -- | -- |
| Impact of shares issued in dividend reinvestment (c) | -- | -- | (0.08) |
| Total Distributions, Reinvestments and Rights Offering | (1.20) | (1.42) | (1.47) |
| Net asset value at end of year | \$10.65 | \$13.61 | \$14.02 |
| Market price at end of year | \$11.09 | \$12.375 | \$11.063 |

TOTAL INVESTMENT RETURN FOR SHAREHOLDERS: (d)

| | | | |
|--------------------------|---------|-------|--------|
| Based on net asset value | (12.7)% | 8.8% | 10.2% |
| Based on market price | 0.0% | 25.4% | (4.4)% |

RATIOS AND SUPPLEMENTAL DATA:

| | | | |
|---|---------|---------|---------|
| Net assets at end of year (millions) | \$1,133 | \$1,376 | \$1,396 |
| Ratio of expenses to average net assets | 1.03% | 0.96% | 0.97% |
| Ratio of net investment income to average net assets | 0.27% | 0.37% | 0.37% |
| Portfolio turnover rate | 64% | 83% | 90% |

(a) Before provision for federal income tax.

(b) Effect of All-Star's rights offerings for shares at a price below net asset value.

(c) Effect of payment of a portion of distributions in newly issued shares at a discount from net asset value.

(d) Calculated assuming all distributions reinvested at actual reinvestment price and all primary rights exercised.

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See Notes to Financial Statements.

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| | YEAR ENDED DECEMBER 31 | | | |
|---|------------------------|----------|----------|---------|
| | 1997 | 1996 | 1995 | 1994 |
| PER SHARE OPERATING PERFORMANCE: | | | | |
| Net asset value at beginning of year | \$11.95 | \$11.03 | \$9.26 | \$10.00 |
| Income from Investment Operations: | | | | |
| Net investment income | 0.05 | 0.08 | 0.10 | 0.00 |
| Net realized and unrealized gain (loss) on investments | 3.01 (a) | 2.15 (a) | 2.71 | (0.00) |
| Provision for federal income tax | (0.36) | (0.13) | -- | -- |
| Total from Investment Operations | 2.70 | 2.10 | 2.81 | (0.00) |
| Less Distributions from: | | | | |
| Net investment income | (0.05) | (0.08) | (0.10) | (0.00) |
| Realized capital gain | (1.28) | (1.10) | (0.94) | (0.00) |
| Return of capital | -- | -- | -- | (0.00) |
| Total Distributions | (1.33) | (1.18) | (1.04) | (1.00) |
| Change due to rights offering (b) | -- | -- | -- | (0.00) |
| Impact of shares issued in dividend reinvestment (c) | -- | -- | -- | -- |
| Total Distributions, Reinvestments and Rights Offering | (1.33) | (1.18) | (1.04) | (1.00) |
| Net asset value at end of year | \$13.32 | \$11.95 | \$11.03 | \$9.00 |
| Market price at end of year | \$13.313 | \$11.250 | \$10.875 | \$8.000 |
| TOTAL INVESTMENT RETURN FOR SHAREHOLDERS: (d) | | | | |
| Based on net asset value | 26.6% | 21.7% | 31.8% | (0.00) |
| Based on market price | 34.4% | 16.2% | 41.4% | (14.00) |
| RATIOS AND SUPPLEMENTAL DATA: | | | | |
| Net assets at end of year (millions) | \$1,150 | \$988 | \$872 | \$700 |

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| | | | | |
|---|-------|-------|-------|-----|
| Ratio of expenses to average net assets | 1.01% | 1.03% | 1.06% | 1.0 |
| Ratio of net investment income to average net assets | 0.38% | 0.73% | 0.92% | 1.1 |
| Portfolio turnover rate | 99% | 70% | 54% | 4 |

See Notes to Financial Statements.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001

NOTE 1. ORGANIZATION AND ACCOUNTING POLICIES

Liberty All-Star Equity Fund ("All-Star" or the "Fund"), organized as a Massachusetts business trust on August 20, 1986, is a closed-end, diversified management investment company. All-Star's investment objective is to seek total investment return, comprised of long term capital appreciation and current income, through investment primarily in a diversified portfolio of equity securities. All-Star is managed by Liberty Asset Management Company (the "Manager").

The following is a summary of significant accounting policies followed by All-Star in the preparation of its financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

VALUATION OF INVESTMENTS - Portfolio securities listed on an exchange and over-the-counter securities quoted on the NASDAQ system are valued on the basis of the last sale on the date as of which the valuation is made, or, lacking any sales, at the current bid prices. Over-the-counter securities not quoted on the NASDAQ system are valued on the basis of the mean between the current bid and asked prices on that date. Securities for which reliable quotations are not readily available are valued at fair value, as determined in good faith and pursuant to procedures established by the Board of Trustees (Trustees). Short-term instruments maturing in more than 60 days for which market quotations are readily available are valued at current market value. Short-term instruments with remaining maturities of 60 days or less are valued at amortized cost, unless the Trustees determine that this does not represent fair value.

PROVISION FOR FEDERAL INCOME TAX - The Fund qualifies as a "regulated investment company." As a result, a federal income tax provision is not required for amounts distributed to shareholders.

OTHER - Security transactions are accounted for on the trade date. Interest income and expenses are recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

NOTE 2. FEES PAID TO AFFILIATES

Under All-Star's Management and Portfolio Management Agreements, All-Star pays the Manager a management fee for its investment management services at an annual rate of 0.80% of All-Star's average weekly net assets. The Manager pays each

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Portfolio Manager a portfolio management fee at an annual rate of 0.40% of the average weekly net assets of the portion of the investment portfolio managed by it. All-Star also pays the Manager an administrative fee for its administrative services at an annual rate of 0.20% of All-Star's average weekly net assets. The annual fund management and administrative fees are reduced to 0.72% and 0.18%, respectively, on average weekly net assets in excess of \$400 million and the aggregate annual fees payable by the Manager to the Portfolio Managers are reduced to 0.36% of All-Star's average weekly net assets in excess of \$400 million. The annual fund management and administrative fees are further reduced to 0.648% and 0.162%, respectively, on average weekly net assets in excess of \$800 million to \$1.2 billion and 0.584% and 0.146%, respectively, on average weekly net assets in excess of \$1.2 billion. The aggregate annual fees payable by the Manager to the Portfolio Managers are also reduced to 0.324% of the Fund's average weekly net assets in excess of \$800 million to \$1.2 billion and 0.292% of the Fund's average net assets in excess of \$1.2 billion. The Manager is responsible for providing pricing and bookkeeping services to the Fund under a Pricing and Bookkeeping Agreement. Under a separate agreement (the "Outsourcing Agreement"), the Manager has delegated those functions to State Street Bank and Trust Company ("State Street"). The Manager pays fees to State Street under the Outsourcing Agreement.

During the period January 1, 2001 to June 30, 2001, Colonial Management Associates, Inc., an affiliate of the Manager, provided bookkeeping and pricing services to the Fund for a monthly fee equal to \$36,000 annually plus 0.0233% annually of the Fund's average weekly net assets over \$50 million, 0.0167% in excess of \$500 million, and 0.015% in excess of \$1 billion. Effective July 1,

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2001, under its pricing and bookkeeping agreement with the Fund, the Manager receives from the Fund an annual flat fee of \$10,000, paid monthly, and in any month that the Fund's average weekly net assets are more than \$50 million, a monthly fee equal to the average weekly net assets of the Fund for that month multiplied by a fee rate that is calculated by taking into account the fees payable to State Street under the Outsourcing Agreement.

On November 1, 2001, Liberty Financial Companies, Inc., the former parent of the Manager, completed the sale of its asset management business, including the Manager, to Fleet National Bank (Fleet), an indirect wholly owned subsidiary of FleetBoston Financial Corporation. This transaction resulted in a change of control of the Manager and, therefore, an assignment of the Manager's investment advisory agreement and an assignment of the portfolio management agreements with the Fund. The Fund had obtained approval of a new investment advisory agreement and new portfolio management agreement by the Fund's Trustees and shareholders, which became effective upon completion of the sale. The new contracts are identical to the prior contract in all material respects except for their effective and termination dates.

OTHER - The Fund has an agreement with its custodian bank under which \$1,525 of custody fees were reduced by balance credits for the year ended December 31, 2001. The Fund could have invested a portion of the assets utilized in connection with the expense offset arrangements in an income producing asset if it had not entered into such agreements.

NOTE 3. CAPITAL TRANSACTIONS

During the years ended December 31, 2001, and December 31, 2000, distributions in the amount of \$56,182,987 and \$19,294,351 respectively, were paid in newly issued shares valued at market value or net asset value, but not less than 95%

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of market value, resulting in the issuance of 5,333,568 and 1,535,869 shares, respectively.

NOTE 4. SECURITIES TRANSACTIONS

Realized gains and losses are recorded on the identified cost basis for both financial reporting and federal income tax purposes. The cost of investments purchased and the proceeds from investments sold excluding short-term debt obligations for the year ended December 31, 2001 were \$750,053,044 and \$825,868,477, respectively.

The Fund may enter into repurchase agreements and require the seller of the instrument to maintain on deposit with the Fund's custodian bank or in the Federal Reserve Book-Entry System securities in the amount at all times equal to or in excess of the value of the repurchase agreement, plus accrued interest. The Fund may experience costs and delays in liquidating the collateral if the issuer defaults or enters bankruptcy.

NOTE 5. DISTRIBUTIONS TO SHAREHOLDERS

All-Star currently has a policy of paying distributions on its common shares totaling approximately 10% of its net asset value per year, payable in four quarterly distributions of 2.5% of All-Star's net asset value at the close of the New York Stock Exchange on the Friday prior to each quarterly declaration date.

Distributions to shareholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution (or available capital loss carry-forwards) under income tax regulations. These reclassifications are excluded from the per share amount in the Financial Highlights.

The tax composition of dividends represented by ordinary income and long-term capital gains was \$41,109,537 and \$81,993,670, respectively.

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REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Liberty All-Star Equity Fund (the "Fund") at December 31, 2001, the results of its operations, the changes in its net assets and the financial highlights for years ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements and the financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates

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made by management, and evaluating our overall financial statement presentation. We believe that our audits, which included confirmation of portfolio positions at December 31, 2001 by correspondence with the custodian, provide a reasonable basis for our opinion. The financial highlights of the Fund for periods prior to January 1, 1999 were audited by other independent accountants whose report dated February 12, 1999 expressed an unqualified opinion on those statements.

PricewaterhouseCoopers LLP

Boston, Massachusetts

February 4, 2002

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AUTOMATIC DIVIDEND REINVESTMENT & CASH PURCHASE PLAN

Under the Fund's Automatic Dividend Reinvestment and Cash Purchase Plan (the "Plan"), shareholders may elect to participate and have all their Fund dividends and distributions automatically reinvested by EquiServe Trust Company, N.A., as agent for participants in the Plan (the "Plan Agent"), in additional shares of the Fund. For further information and enrollment forms, 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, 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). Distributions declared payable only 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 equals or exceeds its 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). Dividends and distributions are subject to taxation, whether received in cash or in shares.

Participants in the Plan have the option of making additional cash payments in any amount on a monthly basis for investment in shares of the Fund purchased on the open market. These voluntary cash payments will be invested on or shortly after the 15th day of each calendar month, and voluntary payments should be sent so as to be received by the Plan Agent no later than five business days before the next investment date. Barring suspension of trading, voluntary cash payments will be invested within 45 days of receipt. A participant may withdraw a voluntary cash payment by written notice received by the Plan Agent at least 48 hours before such payment is to be invested.

The Plan Agent maintains all shareholder accounts in the Plan and furnishes

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written 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 non-certificated 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. 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 or in cash. However, each participant bears a pro rata share of brokerage commissions 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 purchases from voluntary cash payments, the Plan Agent will charge \$1.25 for each such purchase for a participant, plus a pro rata share of the brokerage commissions. Brokerage charges for purchasing small amounts of shares for individual accounts through the Plan are expected to be less than the usual brokerage charges for such transactions, as the Plan Agent will be purchasing shares for all participants in blocks and prorating the lower commission thus attainable.

Shareholders may terminate their participation in the Plan by written notice to the Plan Agent, EquiServe Trust Company, N.A., P.O. Box 43011, Providence, RI 02940-3011. Such termination will be effective immediately if received not less than 10 days prior to the record date for a dividend or distribution; otherwise it will be effective on the first business day after the payment date of such dividend or distribution. On termination, participants may either have certificates for the Fund shares in their Plan accounts delivered to them or have the Plan Agent sell such shares in the open market and deliver the proceeds, less a \$2.50 fee plus brokerage commissions, to the participant.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan.

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TAX INFORMATION (UNAUDITED)

All 2001 distributions whether received in cash or shares of the Fund consist of the following:

- (1) ordinary income and
- (2) long-term capital gains distributions

Below is a table that details the breakdown of each 2001 distribution for federal income tax purposes.

TAX STATUS OF 2001 DISTRIBUTIONS

| DATE PAID | AMOUNT PER SHARE | ORDINARY INCOME | | | LONG-TERM CAPITAL GAINS |
|-----------|---------------------|-----------------------------|--------------------------------|--|-------------------------------|
| | | NET INVESTMENT INCOME | SHORT-TERM CAPITAL GAINS | | |
| | | | | | |

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| | | | | |
|----------|--------|--------|--------|---------|
| 03/19/01 | \$0.33 | -- | 39.32% | 60.68% |
| 07/02/01 | \$0.31 | -- | 39.32% | 60.68% |
| 10/09/01 | \$0.31 | 0.89% | 38.97% | 60.14% |
| 01/02/02 | \$0.25 | 10.90% | -- | 89.10%* |

*100% of the Long-Term Capital Gains distribution paid on 01/02/02 is from qualified 5-year capital gains.

FOR CORPORATE SHAREHOLDERS

28% of the ordinary income dividends qualify for the 70% dividend received deduction available for corporations for the year ended December 31, 2001.

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RESULTS OF SPECIAL MEETING OF SHAREHOLDERS (UNAUDITED)

On September 26, 2001, a Special Meeting of Shareholders of the Fund was held to conduct a vote for or against the approval of the items listed on the Fund's Proxy Statement for said Meeting. On July 16, 2001, the record date for the Meeting, the Fund had shares outstanding of 103,077,108.002. The votes cast were as follows:

1. PROPOSAL OF NEW INVESTMENT ADVISORY AGREEMENT:

| | |
|---------|----------------|
| For | 94,393,883.325 |
| Against | 1,787,502.285 |
| Abstain | 1,739,889.672 |

2. PROPOSAL OF NEW PORTFOLIO MANAGEMENT AGREEMENT WITH MASTRAPASQUA & ASSOCIATES, INC.:

| | |
|---------|----------------|
| For | 94,227,400.122 |
| Against | 1,801,599.180 |
| Abstain | 1,892,275.980 |

3. PROPOSAL OF NEW PORTFOLIO MANAGEMENT AGREEMENT WITH OPPENHEIMER CAPITAL:

| | |
|---------|----------------|
| For | 94,532,074.264 |
| Against | 1,612,867.026 |
| Abstain | 1,776,333.992 |

4. PROPOSAL OF NEW PORTFOLIO MANAGEMENT AGREEMENT WITH BOSTON PARTNERS ASSET MANAGEMENT, L.P.:

| | |
|---------|----------------|
| For | 94,310,366.508 |
| Against | 1,698,865.496 |

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Abstain 1,912,043.278

5. PROPOSAL OF NEW PORTFOLIO MANAGEMENT AGREEMENT WITH WESTWOOD MANAGEMENT CORPORATION:

For 94,224,801.755
 Against 1,757,307.435
 Abstain 1,939,166.092

6. PROPOSAL OF NEW PORTFOLIO MANAGEMENT AGREEMENT WITH TCW INVESTMENT MANAGEMENT COMPANY:

For 94,131,648.139
 Against 1,903,587.876
 Abstain 1,886,039.267

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TRUSTEES AND OFFICERS

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.

DISINTERESTED TRUSTEE(S)

| NAME (AGE) AND ADDRESS | POSITION WITH LIBERTY ALL-STAR EQUITY FUND | TERM OF OFFICE AND LENGTH OF SERVICE | PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS | NUMB PORTFO FUND OVE BY TR |
|---|---|---|--|--|
| Robert J. Birnbaum (Age 74) c/o Liberty Asset Management Company One Financial Center Boston, MA 02111 | Trustee | Trustee Since 1994; Term Expires 2003 | Retired since January 1994; Special Counsel, Dechert, Price & Rhoads (September 1988 to December 1993); President and Chief Operating Officer, New York Stock Exchange, Inc. (May 1985 to June 1988) | |
| James E. Grinnell (Age 71) c/o Liberty Asset Management Company One Financial Center Boston, MA 02111 | Trustee | Trustee Since 1986; Term Expires 2002 | Private investor since November 1988; President and Chief Executive Officer, Distribution Management Systems, Inc. (1983 to May 1986); Senior Vice President, Operations, The Rockport Company (importer and dis- tributor of shoes) (May 1986 | |

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to November 1988).

| | | | | |
|--|---------|---|---|---|
| Richard W. Lowry (Age 65) c/o Liberty Asset Management Company One Financial Center Boston, MA 02111 | Trustee | Trustee Since 1986; Term Expires 2004 | Private investor since 1987 (formerly Chairman and Chief Executive Officer, U.S. Plywood Corporation (build- ing products manufacturer). | 1 |
| John J. Neuhauser (Age 58) c/o Liberty Asset Management Company One Financial Center Boston, MA 02111 | Trustee | Trustee Since 1998; Term Expires 2004 | Academic Vice President and Dean of Faculties since August 1999, Boston College (formerly Dean, Boston College School of Manage- ment from September 1977 to September 1999). | 1 |

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INTERESTED TRUSTEE

| NAME (AGE) AND ADDRESS | POSITION WITH LIBERTY ALL-STAR EQUITY FUND | TERM OF OFFICE AND LENGTH OF SERVICE | PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS | NUMB PORTFO FUND OVE BY TR |
|--|---|---|--|--|
| William E. Mayer* (Age 61) c/o Liberty Asset Management Company One Financial Center Boston, MA 02111 | Trustee | Trustee Since 1998; Term Expires 2003 | Managing Partner, Park Avenue Equity Partners (venture capital) since February 1999 (formerly Founding Partner, Development Capital, LLC from November 1996 to February 1999; Dean and Professor, College of Business and Management, University of Maryland from October, 1992 to November 1996). | 1 |

* A TRUSTEE WHO IS AN "INTERESTED PERSON" (AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940 ("1940 ACT")) OF LIBERTY ALL-STAR EQUITY FUND OR LAMCO. MR. MAYER IS AN INTERESTED PERSON BY REASON OF HIS AFFILIATION WITH WR HAMBRECHT + CO.

OFFICERS

| POSITION WITH LIBERTY ALL-STAR | YEAR FIRST ELECTED OR APPOINTED | PRINCIPAL OCCUP |
|--------------------------------------|---------------------------------------|-----------------|
|--------------------------------------|---------------------------------------|-----------------|

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| NAME (AGE) AND ADDRESS | EQUITY FUND | TO OFFICE | PAST FIVE |
|---|----------------|-----------|--|
| William R. Parmentier, Jr. (Age 49) Liberty Asset Management Company One Financial Center Boston, MA 02111 | President | 1998 | President and Chief Executive Officer (August 1998) and Chief Financial Officer (April 1995), Senior Vice President (August 1998), Liberty Asset Management Company. |
| Christopher S. Carabell (Age 38) Liberty Asset Management Company One Financial Center Boston, MA 02111 | Vice President | 1997 | Senior Vice President of Marketing (since January 1998) at Liberty Investments, Liberty Asset Management Company (March 1996 to January 1998), Associate Director, U.S. Securities and Exchange Commission (RogersCasey, investment advisor) from 1995 to February 1996. |
| Mark T. Haley, CFA (Age 37) Liberty Asset Management Company One Financial Center Boston, MA 02111 | Vice President | 1999 | Vice President-Investments and Director of Investments (from January 1994 to December 1998), Investment Advisor (from 1994 to November 1996) at Liberty Asset Management Company. |

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| NAME (AGE) AND ADDRESS | POSITION WITH LIBERTY ALL-STAR EQUITY FUND | YEAR FIRST ELECTED OR APPOINTED TO OFFICE | PRINCIPAL OCCUPATION PAST FIVE YEARS |
|---|--|---|---|
| J. Kevin Connaughton (Age 37) One Financial Center Boston, MA 02111 | Treasurer | 2000 | Treasurer of the Liberty All-Star Funds since January 2000; Controller of the Liberty All-Star Fund (from October 2000); Treasurer of the Liberty All-Star Fund since February, 2001; Senior Vice President of Liberty Asset Management Company from May 2000 to February 2000; President of Liberty Asset Management Company since January 2001 (from April 2000 to January 2001); Senior Vice President of Colonial Management Associates ("Colonial") from February 2000; Senior Tax Manager at Liberty Asset Management LLP from April 1996 to August 2000. |
| Michelle G. Azrialy (Age 32) One Financial Center Boston, MA 02111 | Controller | 2001 | Controller of the Liberty All-Star Funds since January 2001; President of LFG since January 2001; Assistant Vice President of Liberty Asset Management Company from September 2000 to January 2001; Compliance Manager of Liberty Asset Management Company from September 1999 to January 2000; Assistant Vice President of Chase Global Fund Services from August 1996 to September 1999. |

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Vicki Benjamin (Age 40)
One Financial Center
Boston, MA 02111

Chief
Accounting
Officer

2001

Chief Accounting Officer
and of the Liberty All
Vice President of LFG
Vice President, Corporate
Bank and Trust Company
2001; Audit Manager from
1997; Senior Audit Manager
May 1998, Coopers & Lybrand

Jean S. Loewenberg (Age 56)
One Financial Center
Boston, MA 02111

Secretary

2002

Secretary of the Liberty
All-Star Funds since
President and Group Secretary
National Bank since November

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[ALL-STAR EQUITY FUND LOGO]

FUND MANAGER

Liberty Asset Management Company
One Financial Center
Boston, Massachusetts 02111
617-772-3626
www.all-starfunds.com

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers, LLP
160 Federal Street
Boston, Massachusetts 02110

CUSTODIAN

State Street Bank & Trust Company
225 Franklin Street
Boston, Massachusetts 02110

INVESTOR ASSISTANCE,

TRANSFER & DIVIDEND

DISBURSING AGENT & REGISTRAR

EquiServe Trust Company, N.A.

P.O. Box 43011, Providence, Rhode Island 02940-3011

1-800-LIB-FUND (1-800-542-3863)

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