LIBERTY ALL STAR EQUITY FUND
Form N-CSR
March 07, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 333-145600 and 811-04809

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

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

Tane T. Tyler, Secretary

Liberty All-Star Equity Fund

1290 Broadway, Suite 1100

Denver, Colorado 80203
(Name and address of agent for service)

Registrant s telephone number, including area code: 303-623-2577

Date of fiscal year end: December 31

Date of reporting period: December 31, 2007

Item 1. Report of Shareholders

LIBERTY ALL-STAR® EQUITY FUND

PRESIDENT S LETTER

LIBERTY ALL STAR® EQUITY FUND

2007 ANNUAL REPORT

A SINGLE INVESTMENT...

A DIVERSIFIED CORE PORTFOLIO

A single fund that offers:

- A diversified, multi-managed portfolio of growth and value stocks
- Exposure to many of the industries that make the U.S. economy one of the world s most dynamic
- Access to institutional quality investment managers
- Objective and ongoing manager evaluation
- Active portfolio rebalancing
- A quarterly fixed distribution policy
- The power of more than $1.4 billion in assets
- Actively managed, exchange traded fund listed on the New York Stock Exchange (ticker symbol: USA)

LIBERTY ALL-STAR EQUITY FUND

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The views expressed in the President s Letter, Editorial Feature and Manager Roundtable reflects the views of the respective parties. These views are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict, so actual outcomes and results may differ significantly from the views expressed. These views are subject to change at any time based upon economic, market or other conditions, and the respective parties disclaim any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for the Fund are based on numerous factors, may not be relied on as an indication of trading intent. References to specific company securities should not be construed as a recommendation or investment advice.

LIBERTY ALL-STAR® EQUITY FUND

PRESIDENT S LETTER

Fellow Shareholders: February 2008

Two thousand seven was a mixed year for investors holding a diversified equity portfolio. Through nine months, the widely followed S&P 500 Index was ahead 9.1 percent and poised to post another double-digit gain just as it did in 2006. Unfortunately, nine months does not a year make. The S&P 500 declined 3.3 percent in the final calendar quarter to end the year with a gain of 5.5 percent.

While this is a respectable return, it was the way that 2007 ended that put a pall on what had otherwise been a good albeit volatile year. As investors reading this report in early 2008 are all too well aware, the market is beset with problems ranging from the subprime mortgage crisis and a moribund residential real estate market to record high energy prices and low levels of consumer confidence. In addition, ongoing geopolitical challenges that seem to have become a permanent part of the global situation remain a concern.

Whether these problems lead to a bear market on the order of the one we witnessed in 2000 through 2002 remains to be seen. Bull markets do not last forever, and the 2003 2007 bull market, which included an all-time record high for the S&P 500 in late May 2007, is obviously being tested. Although we are hopeful that the stock market can work its way through these concerns and regain its footing; it is difficult to believe that sentiment will remain as negative as it has been for the past couple of months. Still, after five good years we may be in for a period of consolidation, given the uncertainties that exist.

For Liberty All-Star Equity Fund shareholders the 2007 rotation in market leadership to growth from value is noteworthy. As investors are aware, value style investing generally outperformed growth for an unprecedented seven years. In 2006, leadership finally began to change and 2007 saw the completion of the rotation as growth stocks finally outperformed their value counterparts. Reflective of this rotation, the Russell 3000® Growth Index gained 11.4 percent for the year versus a 1.0 percent decline for the Russell 3000® Value Index.

Liberty All-Star Equity Fund posted a mixed year in 2007. Essentially, it was a tale of two halves: In the first half, Fund shares valued at net asset value (NAV) with dividends reinvested returned 9.3 percent and 14.1 percent on a market price basis. In the second half, Fund shares valued at NAV with dividends reinvested returned -3.6 percent and -14.8 percent in terms of market price.

Despite the difficult second half, for the full year the Fund returned 4.5 percent with shares valued at NAV and 5.3 percent with shares valued at NAV with dividends reinvested. In terms of the market price, the Fund declined 2.8 percent. Those results trailed the Fund s primary benchmark, the Lipper Large-Cap Core Mutual Fund Average, which gained 5.7 percent for the year, and the S&P 500 which rose 5.5 percent.

A significant factor in the Fund s NAV reinvested return shortfall of 0.2% to the S&P 500 was due to an overweight to financial stocks which, as is well known, were hit hard in the second half of the year, and especially the fourth quarter. The Fund was also underweight consumer staples, a sector that performed well in the second half when fears of recession caused investors to seek shelter in the most defensive market sectors. As for the poor second half market price performance, the discount to NAV at which closed-end funds sometime sell widened considerably in the second half. The Fund was not immune from this circumstance, as its discount expanded from a premium to NAV of 0.8 percent on March 27 to a 12.6 percent discount at year-end, which is far above its historic average. We believe this is somewhat of an anomaly and should normalize as we progress into 2008.

The accompanying table traces key metrics for the fourth quarter and full year of 2007, as well as longer-term periods. In part due to the Fund s difficult second half of 2007, Fund performance trails relevant benchmarks for the one and three-year periods. Beyond that, for all other longer-term periods the Fund has

FUND STATISTICS AND SHORT-TERM PERFORMANCE
PERIODS ENDING DECEMBER 31, 2007

FUND STATISTICS:		
Net Asset Value (NAV)	$	8.07
Market Price	$	7.05
Discount		12.6%

	Quarter	2007
Distributions	$ 0.22	$ 0.90
Market Price Trading Range	$ 6.74 to $8.45	$ 6.74 to $9.26
Premium/(Discount) Range	(4.8) to (15.9)%	0.8 to (15.9)%
PERFORMANCE:		
Shares Valued at NAV	(4.0)%	4.5%
Shares Valued at NAV with Dividends Reinvested	(3.3)%	5.3%
Shares Valued at Market Price with Dividends Reinvested	(9.4)%	(2.8)%
S&P 500 Index	(3.3)%	5.5%
Lipper Large-Cap Core Mutual Fund Average	(3.1)%	5.7%
NAV Reinvested Percentile Rank (1 = best; 100 = worst)	61st	54th
Number of Funds in Category	881	835

LONG-TERM PERFORMANCE SUMMARY PERIODS ENDING DECEMBER 31, 2007	ANNUALIZED RATES OF RETURN 3 YEARS	5 YEARS	10 YEARS	15 YEARS	20 YEARS
LIBERTY ALL-STAR EQUITY FUND					
Shares Valued at NAV	6.4%	14.0%	5.8%	9.4%	11.3%
Shares Valued at NAV with Dividends Reinvested	6.9%	14.2%	6.2%	9.7%	11.8%
Shares Valued at Market Price with Dividends Reinvested	1.2%	12.8%	4.8%	8.5%	12.5%
S&P 500 Index	8.6%	12.8%	5.9%	10.5%	11.8%
Lipper Large-Cap Core Mutual Fund Average*	8.1%	11.7%	5.0%	9.3%	10.7%
NAV Reinvested Percentile Ranking (1 = best; 100 = worst)	72nd	11th	27th	42nd	23rd
Number of Funds in Category	702	572	287	104	62

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

Figures shown for the Fund and the Lipper Large-Cap Core Mutual Fund Average are total returns, which include dividends, after deducting Fund expenses. The Fund s performance is calculated assuming that a shareholder exercised all primary rights in the Fund s rights offerings. Figures shown for the unmanaged S&P 500 Index are total returns, including income. A description of the Lipper benchmark and the S&P 500 Index can be found on page 40.

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

Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund s shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below or above net asset value.

above average relative results compared to its peers in the Lipper Large-Cap Core Mutual Fund Average. And, as the table shows, the Fund s rank in the Lipper Large-Cap Core universe ranges from the 11th percentile to no worse than 42nd for these periods, meaning the Fund has performed well relative to comparable funds.

Turning to Fund news, the offering to shareholders of rights to purchase additional shares of the Fund was completed successfully in December. The offering, which allowed investors to subscribe for one additional share for each 10 shares owned, was oversubscribed, and all available primary shares were allocated among those who oversubscribed based on the number of shares held on the record date. We at ALPS Advisers are gratified by this response, and thank shareholders for their vote of confidence.

I would like to draw your attention to our traditional Manager Roundtable in this annual report. It s a timely opportunity to hear directly from the Fund s five investment managers, who are thought leaders in value and growth style investing.

In closing, I would observe that despite the exceptionally difficult second half of 2007, the Fund overall held up well and produced positive NAV returns for the full year. And, as mentioned, long-term performance continues to be strong. Neither of these observations should be discounted: The Fund is structured to prove its value through time and through multiple market cycles and it is meeting expectations. Based on a weak close to 2007 and an even weaker beginning to 2008, we may have to endure a more volatile period ahead. We are confident, however, that the Fund should weather the storm as it has during challenging markets in the past.

We are grateful for your ongoing support of the Fund and will do all in our power to maintain your trust and confidence.

Sincerely,

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

LIBERTY ALL-STAR® EQUITY FUND

CLOSED-END FUNDS: WHAT THEY ARE AND HOW THEY RE DIFFERENT

Liberty All-Star Equity Fund is a closed-end fund, a characteristic that distinguishes it from most investment funds, which are open-end mutual funds. An open-end mutual fund creates or redeems shares continuously as money flows into or out of the fund. Closed-end funds, by contrast, have a fixed number of shares that are traded between investors on a stock exchange (the Fund is listed on the New York Stock Exchange but trades on other exchanges, as well).

Why does being a closed-end fund matter to investors? An exchange-traded, closed-end fund is bought and sold just like the shares of other publicly traded securities. Pricing is intra-day not just end-of-day, as is the case with open-end mutual funds. A transaction price is continuously available and there are no annual sales fees. From the perspective of the Fund s five investment managers, the closed-end structure allows them to focus on stock selection and investing for the long term instead of being influenced by sharp inflows or outflows of assets that can occur with open-end funds.

Closed-end funds may trade at a market price that represents a premium or discount to the underlying assets in the fund (the net asset value, or NAV). Why? The primary reason is actions in the market that determine the price of shares in general, such as supply and demand, investor sentiment, liquidity needs and other market forces.

While there are many more open-end mutual funds, closed-end funds still play a significant role in the financial markets. At present, there are some 650 closed-end funds representing about $300 billion in assets.

Unique Attributes Of

Liberty All-Star Equity Fund

Liberty All-Star Equity Fund enhances the benefits of its status as a closed-end fund through key attributes highlighted on the following pages. Together, these attributes help to make the Fund a core equity holding for investors seeking diversification, income and the potential for long-term appreciation.

LIBERTY ALL-STAR® EQUITY FUND

UNIQUE FUND ATTRIBUTES

Multi-management for individual investors

Large institutional investors, such as endowments and pension plans, have traditionally employed multiple investment managers. When it was founded, Liberty All-Star Equity Fund became the first publicly traded, multimanaged, closed-end fund. Twentyone years later, multi-management has gained broad acceptance not only among institutions, but also with individual investors.

Real-time trading and liquidity

Owing to its closed-end structure, the Fund has a fixed number of shares that trade on the New York Stock Exchange and other exchanges. Share price is determined by supply and demand, and pricing is continuous not just end-of-day, as it is with open-end mutual funds. Fund shares offer immediate liquidity, there are no annual sales fees and expense ratios are lower than many comparable open-end mutual funds.

Access to institutional managers

The Fund s investment managers invest primarily for pension funds, endowments, foundations and other institutions. By itself, that does not make them inherently better. But, because they are closely monitored by their institutional clients, these managers tend to be more disciplined and consistent in their investment process.

Monitoring and rebalancing

ALPS Advisers continuously monitors the investment managers to ensure that they are performing as expected and adhering to their style and strategy. If warranted, ALPS will recommend that the Board of Trustees replace a manager, an action that has occurred 14 times in the Fund s history. Periodic rebalancing maintains the Fund s structural integrity and is a well-recognized investment discipline.

Alignment and objectivity

Alignment with shareholders best interests and objective decision-making help to ensure that the Fund is managed openly and equitably. A series of checks and balances and the selection of unaffiliated investment managers ensure the integrity of this key principle. In addition, the Fund is governed by a Board of Trustees that is elected by and responsible to shareholders.

Distribution policy

Since 1988, the Fund has followed a policy of paying annual distributions on its shares at a rate of 10 percent of the Fund s net asset value (paid quarterly at 2.5 percent per quarter), providing a systematic mechanism for distributing funds to shareholders.

LIBERTY ALL-STAR® EQUITY FUND

MULTI-MANAGEMENT HAS PRODUCED MORE CONSISTENT RETURNS

The narrative on the preceding three pages is intended to focus on the unique attributes of the Fund. The chart below demonstrates the long-term outcome of these attributes, particularly the Fund s multi-management structure. Most mutual funds are run by a single portfolio manager or an internal team of managers pursuing a particular investment style, whether it s growth or value. But styles go in and out of favor. A style that outperforms on a relative basis one year may disappoint the next, leading to higher volatility.

As discussed in our Unique Fund Attributes feature, ALPS utilizes multi-management, that is, combining managers who practice different investment styles to reduce volatility while producing competitive returns.

All-Star s long-term track record provides clear testimony to the value of the multi-management strategy. The chart below demonstrates that for the trailing 20-year period ending December 31, 2007, the Fund has achieved better-than-average returns and better-than-average consistency compared with peer funds in the Lipper Large-Cap Core universe.

Each dot represents the precise 20-year return and consistency record ending December 31, 2007, of each fund in the universe of 37 open-end Large-Cap Core equity mutual funds (as classified by Lipper, Inc.) that has a 20-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.

LIBERTY ALL-STAR® EQUITY FUND

INVESTMENT MANAGERS/PORTFOLIO CHARACTERISTICS

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

MANAGERS DIFFERING INVESTMENT STRATEGIES ARE REFLECTED IN PORTFOLIO CHARACTERISTICS

The portfolio characteristics table below is a regular feature of the Fund s shareholder reports. It serves as a useful tool for understanding the value of a multi-managed portfolio. The characteristics are different for each of the Fund s five investment managers. These differences are a reflection of the fact that each pursues a different investment style. The shaded column highlights the characteristics of the Fund as a whole, while the final column shows portfolio characteristics for the S&P 500 Index.

PORTFOLIO CHARACTERISTICS AS OF DECEMBER 31, 2007 (UNAUDITED)

INVESTMENT STYLE SPECTRUM

VALUE **GROWTH**

	Schneider	Pzena	Matrix	Chase	TCW	Total Fund	S&P 500 Index
Number of Holdings	45	40	35	34	27	156*	500
Percent of Holdings in Top 10	58%	43%	38%	43%	58%	18%	20%
Weighted Average Market Capitalization (billions)	$18	$61	$90	$73	$60	$61	$107
Average Five-Year Earnings Per Share Growth	21%	7%	18%	27%	36%	22%	22%
Dividend Yield	2.1%	3.1%	1.9%	1.1%	0.5%	1.7%	2.0%
Price/Earnings Ratio	16x	12x	15x	21x	22x	16x	16x
Price/Book Value Ratio	3.5x	2.0x	2.7x	6.2x	8.6x	4.7x	4.4x

* Certain holdings are held by more than one manager.

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LIBERTY ALL-STAR® EQUITY FUND

MANAGER ROUNDTABLE

As the bulls and bears face off, the Fund s investment managers see both caution and opportunity

After an impressive 15.8 percent gain in 2006, the S&P 500 Index advanced 5.5 percent in 2007 bringing the average annual return for this widely followed benchmark to a strong 12.8 percent for the last five years. Yet, investors are more likely to remember the heightened volatility that marked the second half of 2007, as well as the weak close to the year outcomes of the subprime mortgage crisis, a slowing economy, high energy prices and lower corporate earnings. Does all this mark the end of the bull market? Which macro factors are the fund s investment managers tracking closely, what is their perspective on heightened volatility and how do they anticipate managing in 2008? These questions and others are the basis for our 2008 Manager Roundtable. ALPS Advisers serves as moderator of the Roundtable. The participating investment managers and their styles are:

CHASE INVESTMENT COUNSEL CORPORATION

Portfolio Manager/David Scott, CFA, CIC

Senior Vice President and Chief Investment Officer *Investment Style*/Growth Chase is a growth manager that has a valuation orientation to its investment process, seeking to invest in quality growth stocks that demonstrate consistent earnings growth but whose shares are reasonably priced.

MATRIX ASSET ADVISORS, INC.

Portfolio Manager/David A. Katz, CFA
President and Chief Executive Officer

Investment Style/Value Matrix follows an opportunistic value- oriented investment philosophy. Matrix believes that value can be found in all sectors of the economy, and thus looks for investment opportunities beyond traditional value industries.

PZENA INVESTMENT MANAGEMENT, LLC

Portfolio Manager/Antonio DeSpirito, III
Principal and Portfolio Manager

Investment Style/Value Pzena uses fundamental research and a disciplined process to identify good companies with a sustainable business advantage that the firm believes are undervalued on the basis of current price to an estimated normal level of earnings.

SCHNEIDER CAPITAL MANAGEMENT CORPORATION

Portfolio Manager/Arnold C. Schneider, III, CFA
President and Chief Investment Officer

Investment Style/Value The firm practices a disciplined, fundamental approach to add value over time. Research focuses on uncovering new ideas and owning undervalued stocks before they experience a rebound in earnings and come to the attention of other investors.

TCW INVESTMENT MANAGEMENT COMPANY

Portfolio Manager/Craig C. Blum, CFA, Managing Director *Investment Style*/Growth TCW invests in companies that have superior sales growth, leading and/or rising market shares, and high and/or rising profit margins. TCW s concentrated growth equity strategy seeks companies with distinct advantages in their business model.

For what kinds of stocks (i.e., sectors, industries, capitalization, growth/value) do you have favorable expectations in 2008 and why? Let s open with our three value managers in alphabetical order. David Katz, Matrix goes first in that order.

KATZ (MATRIX ASSET ADVISORS VALUE): Succinctly, we like stocks that will best ride through the current economic rapids and react best to the recovery we envision for later in 2008. That leads us to favor recent trends and to expect additional ones.

For capitalization weightings, we believe that last year s swing back to large cap dominance after a seven-year period of small cap leadership will continue, probably for several years. Within the large cap space, we envision mega-cap leadership, primarily reflecting compelling fundamentals. Both large cap and mega-cap performance should be driven by superior earnings consistency aided by international exposure and the weak dollar as well as depressed valuations and improved market psychology.

We can t control it [volatility], and it does not overly concern us. But we embrace fluctuations in stock prices because they often create opportunities for us to make long-term investments at an attractive discount.

Arnie Schneider,
Schneider Capital
Management (Value)

Our long-prognosticated shift to growth over value stocks occurred last year, and this, too, we believe is the beginning of a multi-year trend. Two divergent factors favor this: One, growth stocks greater consistency of earnings in a slower economy and, two, many traditional value companies earnings will be hurt by this

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slower economic environment, which could ultimately lead to a compression of their price/earnings multiples.

In terms of sectors or industry groups, two of 2007 s laggards, financial stocks and cable stocks, are due for significant rebounds in 2008. Both were impacted by emotional overselling; we think the market will appreciate the degree of that overselling once these companies are perceived to be addressing their major issues. For financials in particular, most all of the conceivable concerns, and probably some of the more unlikely ones, are already priced into their stocks; a growing perception that issues are being addressed and problems are being mended should lead to a nice bounce.

Three top-down macro factors seem particularly important to the stock market outlook in 2008 the direction of interest rate changes the direction of commodity prices and the resolution of the debt crisis.

David Scott,
Chase Investment Counsel (Growth)

Finally, we think that after a late 2007/early 2008 pullback, select technology stocks are poised to continue their recent strong performance. This will be driven by new applications that will excite consumers, despite a slower economy.

DESPIRITO (PZENA INVESTMENT MANAGEMENT VALUE): We see an unusual opportunity in financial stocks, whose valuations have been driven to extraordinary extremes by investor fears over the subprime mortgage and liquidity crisis. While we continue to forecast a difficult operating environment for financials, we think this is already more than discounted in the price of many of these stocks. In particular, the valuation range between the financial and industrial commodities sectors is at its widest point in 55 years. We see a bubble in commodities, reflecting investors embrace of the Asia/India growth story, which foresees a permanent shortage of commodities. In addition, there are those who view the subprime crisis as having permanently damaged the financial system. In our experience, such extreme views rarely turn out to be correct.

SCHNEIDER (SCHNEIDER CAPITAL MANAGEMENT VALUE): After a tough 2007, the beleaguered financial sector should hold its own and eventually reward patient investors over the next several years. The housing, mortgage and credit mess has created some bargains in high quality names such as Fannie Mae, Freddie Mac and Wachovia. Earnings are temporarily depressed, but periods of stress are where opportunities are often created. These attractive investments have substantial valuation support.

Let s hear from the fund s two growth managers. Craig Blum, start us off please.

BLUM (TCW GROWTH): Every year, our approach is to focus on the highest quality growth companies available that trade at attractive valuations. We currently have favorable expectations for the energy, information technology and health care sectors. Within energy, our emphasis is on the oil services industry given the growing capital intensity of upstream exploration activities. Our technology businesses serve large end markets relative to their current sales bases and operate with clear product and cost advantages. Within health care, we are finding the most attractive opportunities in biotech.

SCOTT (CHASE INVESTMENT COUNSEL GROWTH): Among large cap strategies, value led the market entering 2007. We believe that trend ended by mid-year and growth took over leadership and will continue to perform better. The catalyst behind the style shift was the first signs of economic weakness in housing combined with a six-year plus bull market in value stocks, which led to over ownership. We believe we captured this change through our investment process. Currently, we favor the consumer staples and health care sectors, both of which score favorably under the same process. Household products, beverages and medical services are well positioned for above-average earnings growth and are reasonably priced.

From the perspective of your investment style, would you make a case for value outperforming growth or growth outperforming value in 2008? We ll stay with the growth managers. David Scott, share chase s view, please.

SCOTT (CHASE INVESTMENT COUNSEL GROWTH): Our investment style is large cap growth. As previously noted, we believe that large cap growth resumed performance leadership from large cap value in mid-2007. Growth should continue to outperform because earnings projections for growth companies should hold up better as domestic and perhaps international economic growth slows. In addition, based on an analysis by Ned Davis Research, growth-oriented ETFs and other assets remain well below long-term mean weightings in portfolios. Finally, based on current price/earnings ratios compared to sustainable earnings growth rates, large cap growth stocks are reasonably priced in this volatile market environment.

BLUM (TCW - GROWTH): If the supporting elements continue to hold up, then growth is likely to continue its superior relative performance that began during 2007. Growth companies typically have greater exposure to non-U.S. demand which can serve as an alternative source of growth when activity cools in the U.S. Additionally, easier monetary policy tends to favor growth businesses over value businesses. Finally, periods of higher volatility seem to support growth outperformance owing to the more geo-graphically diversified profit and cash flow sources attributable to global growth companies. Collectively, we believe these forces help to strengthen the case for growth companies during 2008.

Let s ask the value managers to make their case. Arnie Schneider, let s start with you.

SCHNEIDER (SCHNEIDER CAPITAL MANAGEMENT - VALUE): After growth s substantial outperformance in 2007, we think it is closer to a level playing field for 2008. Some value in value stocks has reappeared after last year s sharp correction in select financials, real estate investment trusts and consumer discretionary stocks, among others. The negative for value is the headwinds that cyclical companies generally face in a weakening U.S. economy.

The bullish case for growth is that it is due for an extended comeback after trailing value for seven years prior to 2007, and that growth stocks historically outperform as we approach a profit slowdown. However, many investors who have embraced growth stocks again after a long hiatus might be paying too much for the global growth darlings that they believe will insulate them from the corporate earnings slump that we see on the horizon.

DESPIRITO (PZENA INVESTMENT MANAGEMENT - VALUE): An examination of historical stock market data indicates that it s more accurate to speak of a value/momentum cycle. Momentum has outperformed the broad market for five years (from 2002-2007 momentum investing returned 24.8 percent per year versus 11.3 percent for the S&P 500). A value strategy kept up through 2006, returning 22.3 per-cent annually, but faltered during 2007. No one can predict the future, but we believe the factors are in place for a turn of the cycle. An analysis of the spread between the cheapest quintile by price-to-book ratio of the 500 largest stocks to the S&P 500 reveals that valuations are at one of their biggest extremes in over three decades.

KATZ (MATRIX ASSET ADVISORS - VALUE): Matrix views the investment world through a value prism. Yet, we have found that over the past few years many of the most compelling opportunities are classified as growth stocks in growth industries. Conversely, other than financials and select energy stocks, we believe that many traditional value industries and stocks are fairly to richly valued. In other words, they are not value opportunities as we would traditionally define value.

Last year was the first since 2000 in which growth stocks outpaced value stocks. Reflecting the shifting multi-year dominance that has historically existed, we expect this bias in favor of growth to continue in 2008 and several years thereafter. Many growth stocks are mega-cap multi-nationals whose businesses will be aided by their international exposure and the weak dollar. Conversely, the slowing economy will likely have a greater negative impact on traditional value stocks, producing lower earnings, margins and price/earnings ratios.

In general, investment managers for liberty All-Star Equity fund take a bottom-up approach to buying stocks. But, top-down macro factors play a role, too. Given the worries that beset the market as 2007 went on - chiefly, the subprime mortgage situation, high oil prices, the weak dollar and inflation fears - what macro factors (both positive and negative) are you keeping your eye on for 2008? Let s hear from growth managers first, then the value managers.

BLUM (TCW - GROWTH): The unwinding of a large and prolonged credit cycle always brings challenges. Unfortunately, we are experiencing several negatives simultaneously that make economic risks more difficult to evaluate. The U.S. economy is clearly slowing, with weakening trends in job growth, consumption, retail sales, housing and manufacturing. Corporate profits contracted during Q3:2007 for the first time in five years and we will likely see a more pronounced contraction for Q4:2007. The percolating inflation we observe is likely the lagged result of the dollar weakness that occurred over the past six years and this trend certainly raises some concern. The bright spots are the U.S. export sector - which continues to benefit from the same weak dollar - and the fact that equity prices already reflect the many headwinds that might persist into 2008 and therefore represent attractive value, especially relative to bond yields. What follows is likely a price discovery phase, whereby asset prices, interest rates, credit spreads and other variables all ad-just to a modestly slower U.S. economy. Importantly, the forces of globalization make this a healthy, necessary and tolerable phenomenon and one that presents us with compelling opportunities.

Volatility was likely held at artificially low levels over the past several years as a result of the fed s reflationary policy and the wide and easy access to cheap credit. we are not surprised by the recent upward trend in volatility

Craig Blum,
TCW (Growth)

SCOTT (CHASE INVESTMENT COUNSEL - GROWTH): Three top down macro factors seem particularly important to the stock market outlook in 2008. First, the direction of interest rate changes as directed by Federal Reserve policy will be very important. In the near term, short-term rates should move lower given the current economic weakness. This should be positive for stock prices. Second, the direction of change in commodity prices will be important. If commodity prices continue to ease, world monetary authorities will have more latitude in lowering interest rates. However, many of the more attractive stocks in our work suggest that commodity prices will hold or even rise. If this analysis proves correct it could hamper monetary policies. Third, the resolution of the debt crisis will dominate the outlook for the financial sector of the stock market. Since the financial sector is a relatively large weighting in many of the most followed indices, such as the S&P 500, its performance will significantly influence overall returns.

We believe many of the economic concerns of the second half of 2007 will dominate in much of 2008. however, we think that as the year progresses, many of them will abate.

David Katz,
Matrix Asset Advisors (Value)

DESPIRITO (PZENA INVESTMENT MANAGEMENT - VALUE): Housing, jobs and inflation are probably the three items at the front of our minds from a top-down perspective. Should the housing slump lead to a recession, we see a real risk to the market from a potential unwinding of the commodity bubble. The onset of a recession, however, would not necessarily be bad for our portfolio. Let me explain our position.

A momentum investing approach typically performs well late in an economic cycle, as the market becomes complacent, earnings grow, multiples expand and valuation is mostly ignored. Value stocks are typically beaten down in such an environment, with mispricing reflecting investor fears of the unknown. Once those fears are quantified, the market should begin to discount a recovery and value strategies should outperform.

Economic data increasingly indicate we re in a recession. If history is any guide, once the recession fears are realized, investors will again refocus on valuation and value should outperform. The biggest broad market risk - the unwinding of the commodities bubble - would therefore actually be a plus for us.

KATZ (MATRIX ASSET ADVISORS - VALUE): We believe many of the economic concerns of the second half of 2007 will dominate in much of 2008. However, we think that as the year progresses, many of them will abate. The major issues, as we see them, are the continued subprime mortgage fallout and the resulting recession concerns.

Most importantly, while we believe that the mortgage area and local housing markets will continue to struggle in 2008, financial institutions will come to grips with and write-off much of their exposure, allowing them to get back to business as usual. Morgan Stanley is a good case in point; in its most recent quarter it wrote off about 90 percent of its exposure to subprime and collateralized debt obligations (CDOs). We expect similar actions from Citigroup, Merrill Lynch and others early in 2008. Bank of America s acquisition of Countrywide Financial, JPMorgan Chase s interest in potential acquisitions in the mortgage area, and the aforementioned writing off of subprime exposure are all signs of a bottom for financial stocks.

As to a possible recession, the odds are about 50/50, in our view. Our feeling is that if there is a recession it will be mild and short-lived, in part because of the Fed s willingness to lower interest rates together with a healthy global economy. Recession or not, we believe the economy will end the year in a modest growth mode.

Other macro factors should benefit the economy and the stock market. We believe after an uptick early in the year, inflation will start to ease as 2008 progresses. The beleaguered dollar will eventually stabilize and then strengthen somewhat. Oil continues to be a wild card, defying gravity as well as supply and demand considerations. But slower growth in the U.S. could impact emerging market growth, thus limiting demand for oil and dampening price increases. We do not expect sustained gains in oil prices in 2008, though there might be short-term spikes.

SCHNEIDER (SCHNEIDER CAPITAL MANAGEMENT - VALUE): Our eyes are on data that might indicate the depth and duration of the U.S. economic downturn that we see ahead. Since we believe consumer wealth and spending might weaken considerably, we will pay close attention to changes in housing prices, employment, personal income, debt leverage and retail sales. We will also be attentive to incoming economic data from the non-U.S. developed and emerging markets economies that hint at a broader global slowdown.

As a way of informing the individual shareholder, how does your firm respond to the heightened volatility that we saw in 2007 - volatility that became extreme in the second half of the year? It is unnerving to individuals. So, from a professional s perspective 1) what is your overall philosophy about high volatility; and 2) how do you generally play it - do nothing, hunker down, see it as an opportunity or take it on a case-by-case basis? Let s hear from the value managers first.

SCHNEIDER (SCHNEIDER CAPITAL MANAGEMENT - VALUE): The inherent volatility of the stock market is a fact of life. We can t control it, and it does not overly concern us. But as a value investor we are by nature price-sensitive in our purchase and sales decisions, so we embrace fluctuations in stock prices because they often create opportunities for us to make long-term investments at an attractive discount.

KATZ (MATRIX ASSET ADVISORS - VALUE): If the ultimate goal of investing is to buy low in order to sell high, then extreme volatility gives one the opportunity to do just that - buy low. That doesn t mean it s easy or enjoyable; far from it. But it can be the prelude to significant gains thereafter.

Beginning last summer, when the stock market began selling off, especially financial stocks that were priced as if their current difficulties would never get better, we attempted, after intensive review, to buy stocks that we thought would best endure distress and then rally most significantly with a return to normalcy.

Conversely, we sold some stocks that had traded higher, approaching our fair value target for them, because their prices didn t seem to be affected by short-term market issues. In those cases, we locked in profits and took advantage of their strength before redeploying the capital into more compelling opportunities. We also stress-tested all of our existing holdings in order to determine that they had the financial wherewithal to endure a challenging environment.

DESPIRITO (PZENA INVESTMENT MANAGEMENT - VALUE): We accept volatility in the markets as a significant potential driver of long-term performance, and take advantage of valuation opportunities driven by investor fear. Indeed, some of our best past outperformance has followed periods of high volatility. However, it s important to view volatility over the long term: While the cyclicality of value opportunities can lead to wide disparity in annual returns, extending the investment horizon out to just three-year periods (instead of one-year periods) smooths the return pattern, producing solid long-term returns with volatility levels below that of the index. Investors should focus on volatility that matches their investment horizon, which is what really matters, rather than on monthly or even yearly fluctuations.

We see an unusual opportunity in financial stocks, whose valuations have been driven to extraordinary extremes by investor fears over the subprime mortgage and liquidity crisis.

Antonio DeSpirito,
Pzena Investment Management (Value)

Where are the growth managers on the subject of volatility and what do you do, or not do, about it?

SCOTT (CHASE INVESTMENT COUNSEL - GROWTH): We view high volatility as a negative for stock prices. It increases the equity risk premium with all other factors held constant. However, it does provide opportunity for our stock selection process. We can benefit from exaggerated short term movements to buy or sell stocks at more favorable prices. We can also assess the changing volatility of individual stocks to reevaluate their attractiveness. In 2007, volatility played a key role in reducing our exposure to financial stocks and increasing our exposure to multi-national mega-caps.

BLUM (TCW - GROWTH): Volatility was likely held at artificially low levels over the past several years as a result of the Fed s reflationary policy and the wide and easy access to cheap credit. We are not surprised by the recent upward trend in volatility and believe that it can often lead to compelling opportunities. With that said, higher volatility does not necessarily impact our stock selection or research process. We always aim to use volatility to our clients best advantage.

To conclude, please tell us about a stock that you have added recently to the portion of the Liberty All-Star Equity Fund portfolio that you manage and your rationale for buying it. Growth managers, let s hear from you and we ll conclude with the value managers.

BLUM (TCW GROWTH): C.H. Robinson Worldwide (CHRW) is a leading transportation, logistics and sourcing company that is one of North America s largest third-party logistics companies. As international trade expands and corporations adopt more efficient supply chain management strategies including outsourcing, global procurement and just-in-time inventory management transportation efficiency is becoming more important. CHRW simplifies a highly complex and fragmented truck market, enabling shippers to effectively outsource their transportation operations and capitalize on CHRW s logistics expertise, extensive distribution network and robust systems architecture. We think the market is attractive and that CHRW is well positioned. And, despite the prospect of higher earnings growth, the stock is trading below its historic price/earnings multiple.

SCOTT (CHASE INVESTMENT COUNSEL GROWTH): We recently purchased Genzyme Corp. for the Liberty All-Star Equity Fund. Genzyme was founded in 1981. Based in Cambridge Massachusetts, the company is a biotechnology conglomerate. Bolstering its strong long-term growth record, the company has reported six consecutive positive earnings surprises; has a strong technical profile as evidenced by rising relative stock price strength; and is still reasonably priced. Fundamentally, the company has several catalysts in place to continue its good performance, including a strong drug pipeline, the recent approval of Synvise One for orthopedic applications and numerous cost cutting opportunities to bolster earnings.

DESPIRITO (PZENA INVESTMENT MANAGEMENT VALUE): While our research process continues to unearth new opportunities, none of these has been more attractive recently than buying more of the stocks that are already in the portion of the Liberty All-Star Equity Fund portfolio that we manage. For example, we added significantly to our positions in Freddie Mac and Fannie Mae, two government- sponsored enterprises, or GSEs. Their stock prices fell by about 40 percent from the end of September to year-end, despite the fact that they will likely benefit from the current mortgage market woes. The GSEs are high-earning franchises with unscalable barriers to entry, and we believe they have not suffered any permanent damage to their long-term normal earnings power, making them not only classic Pzena value stocks, but perhaps the most undervalued companies in our universe.

SCHNEIDER (SCHNEIDER CAPITAL MANAGEMENT VALUE): Arch Coal is the second-largest coal miner in the U.S., producing low-sulfur coal from its mines in the western U.S. and the Central Appalachia region. The U.S. coal market seems to have turned the corner after high inventory levels sparked a precipitous drop in coal prices in 2006. Domestic inventories are about to decline and global demand for coal is growing rapidly. Coal prices are strengthening globally, and Arch will benefit greatly from tighter conditions since much of its 2008 production and most of its 2009 output is not under contract and will therefore be able to be sold at hoped-for higher prices. The stock has had quite a run-up since mid-summer 2007, but we believe it is still undervalued.

KATZ (MATRIX ASSET ADVISORS VALUE): We recently initiated a position in McGraw-Hill. The company is a dominant player in the global information services business and services the education, finance, general business, construction and medical markets. Because of the role of its Standard & Poor s division in rating new and existing securities, the slowdown in fixed income markets, as well as concerns about the company s role in the CDO and subprime mortgage crisis, McGraw-Hill s stock has sold off from the $70 per share level to the mid to low $40s. Consequently, a company that normally sells above a 20 price/earnings ratio is now at about a 14 price/earnings ratio.

McGraw-Hill s businesses are strong and its intermediate and long-term outlook is as positive as ever. The market s obsession with the next month or quarter has created an opportunity to own a world class franchise at a great price. Again, it s a case of extreme volatility creating extraordinary opportunity.

Many thanks for the insightful comments. No doubt 2008 will be an interesting year and it will be interesting to see where we are a year hence.

LIBERTY ALL-STAR® EQUITY FUND

AUTOMATIC DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN (UNAUDITED)

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 Computershare 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 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, Computer share Trust Company, N.A., P. O. Box 43078, Providence, RI 02940-3078. Such termination will be effective immediately if receivednot 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.

LIBERTY ALL-STAR® EQUITY FUND

INVESTMENT GROWTH

December 31, 2007

GROWTH OF A $10,000 INVESTMENT

The graph below illustrates the growth of a $10,000 investment assuming the purchase of shares of beneficial interest at the closing market price (NYSE: USA) of $6.00 on December 31, 1987, and tracking its progress through December 31, 2007. For certain information, it also assumes that a shareholder exercised all primary rights in the Fund s rights offerings (see below). This graph covers the period since the Fund commenced its 10 percent distribution policy in 1988.

The growth of the investment assuming all distributions were received in cash and not reinvested back into the Fund. The value of the investment under this scenario grew to $47,550 (includes the December 31, 2007 value of the original investment of $11,750, plus distributions during the period of $35,800 and tax credits on retained capital gains of $1,117).

The additional value realized through reinvestment of all distributions and tax credits. The value of the investment under this scenario grew to $99,910.

The additional value realized through full participation in all the rights offerings under the terms of each offering. The value of the investment under this scenario grew to $128,174 excluding the cost to fully participate in all the rights offerings under the terms of each offering which was $49,966.

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

LIBERTY ALL-STAR® EQUITY FUND

TABLE OF DISTRIBUTIONS AND RIGHTS OFFERINGS

YEAR	PER SHARE DISTRIBUTIONS	MONTH COMPLETED	RIGHTS OFFERINGS SHARES NEEDED TO PURCHASE ONE ADDITIONAL SHARE	SUBSCRIPTION PRICE	TAX CREDITS*
1988	$0.64				
1989	0.95				
1990	0.90				
1991	1.02				
1992	1.07	April	10	$10.05	
1993	1.07	October	15	10.41	$0.18
1994	1.00	September	15	9.14	
1995	1.04				
1996	1.18	0.13			
1997	1.33	0.36			
1998	1.40	April	20	12.83	
1999	1.39				
2000	1.42				
2001	1.20				
2002	0.88	May	10	8.99	
2003	0.78				
2004	0.89	July	10*	8.34	
2005	0.87				
2006	0.88				
2007	0.90	December	10	6.51	

* The Fund s net investment income and net realized capital gains exceeded the amount to be distributed under the Fund s 10 percent distribution policy. In each case, the Fund elected to pay taxes on the undistributed income and passed through a proportionate tax credit to shareholders.

** The number of shares offered was increased by an additional 25% to cover a portion of the over-subscription requests.

DISTRIBUTION POLICY

Liberty All-Star Equity Fund s current policy, in effect since 1988, is to pay distributions on its 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 and may be taxed as ordinary income up to the amount of the fund s current and accumulated earnings and profits**. If, for any calendar year, the total distributions made under the 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 non-taxable return of capital, reducing the shareholder s adjusted basis in his or her shares. If the Fund s net investment income and net realized capital gains for any year exceed the amount distributed under the 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.

LIBERTY ALL-STAR® EQUITY FUND

TOP 20 HOLDINGS AND ECONOMIC SECTORS

December 31, 2007

TOP 20 HOLDINGS*	PERCENT OF NET ASSETS
Microsoft Corp.	2.14%
Freddie Mac	2.09
Schlumberger Ltd.	1.86
Dell, Inc.	1.71
Wal-Mart Stores, Inc.	1.68
Fannie Mae	1.67
Citigroup, Inc.	1.63
Consol Energy, Inc.	1.62
Annaly Capital Management, Inc.	1.54
Arch Coal, Inc.	1.48
QUALCOMM, Inc.	1.48
General Electric Co.	1.45
Salesforce.com, Inc.	1.44
Johnson & Johnson	1.41
Google, Inc., Class A	1.38
Amazon.com, Inc.	1.29
Teva Pharmaceutical Industries Ltd.	1.27
Intel Corp.	1.26
Pfizer, Inc.	1.21
Bank of America Corp.	1.21
	30.82%

ECONOMIC SECTORS*	PERCENT OF NET ASSETS
Information Technology	21.08%
Financials	20.00
Health Care	13.65
Industrials	11.81
Consumer Discretionary	9.78
Energy	8.99
Consumer Staples	5.11
Materials	2.14
Utilities	1.75
Telecommunication Services	0.87
Other Net Assets	4.82
	100.00%

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* Because the Fund is actively managed, there can be no guarantee that the Fund will continue to hold securities of the indicated issuers and sectors in the future.

LIBERTY ALL-STAR® EQUITY FUND

MAJOR STOCK CHANGES IN THE FOURTH QUARTER

The following are the major ($6.0 million or more) stock changes-both purchases and sales-that were made in the Fund s portfolio during the fourth quarter of 2007.

SECURITY NAME	PURCHASES (SALES)	SHARES AS OF 12/31/07
PURCHASES		
Aetna, Inc.	179,500	179,500
Berkshire Hathaway, Inc.	48	48
Dell, Inc.	306,300	1,003,725
Freddie Mac	506,725	884,925
Intel Corp.	299,300	684,300
JP Morgan Chase & Co.	139,650	330,650
Microsoft Corp.	233,050	865,925
PepsiCo, Inc.	111,000	111,000
Procter & Gamble Co.	98,400	98,400
Wachovia Corp.	211,100	211,100
SALES		
America Movil S.A.	(232,300)	
Cisco Systems, Inc.	(380,700)	283,900
Commerce Bancorp, Inc.	(332,210)	
Countrywide Financial Corp.	(530,355)	192,875
EMC Corp.	(585,900)	
Exxon Mobil	(119,500)	
The Gap, Inc.	(311,900)	190,100
IBM Corp.	(101,400)	
Oracle Corp.	(455,900)	325,325

LIBERTY ALL-STAR® EQUITY FUND

SCHEDULE OF INVESTMENTS

as of December 31, 2007

	SHARES		MARKET VALUE
COMMON STOCKS (95.18%)			
CONSUMER DISCRETIONARY (9.78%)			
Auto Components (0.47%)			
Magna International, Inc., Class A	67,575	$	5,435,057
Visteon Corp. (a)	303,925		1,334,231
			6,769,288
Hotels, Restaurants & Leisure (1.77%)			
Carnival Corp.	66,050		2,938,565
Las Vegas Sands Corp. (a)	91,290		9,407,434
McDonald s Corp.	224,300		13,213,513
			25,559,512
Household Durables (1.20%)			
Centex Corp.	259,425		6,553,076
NVR, Inc. (a)	7,450		3,903,800
Whirlpool Corp.	83,325		6,801,820
			17,258,696
Internet & Catalog Retail (1.29%)			
Amazon.com, Inc.(a)	201,380		18,655,843
Media (2.63%)			
Comcast Corp., Class A (a)	540,000		9,784,800
Liberty Media Corp., Capita Group, Series A (a)	51,979		6,055,034
The McGraw-Hill Cos., Inc.	110,000		4,819,100
Time Warner, Inc.	642,000		10,599,420
XM Satellite Radio Holdings, Inc., Class A(a)	544,150		6,660,396
			37,918,750
Specialty Retail (2.42%)			
Chico s FAS, Inc. (a)	119,825		1,082,020
The Gap, Inc.	190,100		4,045,328
Home Depot, Inc.	308,425		8,308,969
Office Depot, Inc. (a)	287,000		3,992,170
Staples, Inc.	393,550		9,079,198
The TJX Companies, Inc.	294,200		8,452,366
			34,960,051
CONSUMER STAPLES (5.11%)			
Beverages (1.41%)			
The Coca-Cola Co.	194,100		11,911,917
PepsiCo, Inc.	111,000		8,424,900
			20,336,817
Food & Staples Retailing (2.22%)			
CVS Caremark Corp.	143,500		5,704,125
Walgreen Co.	53,000		2,018,240
Wal-Mart Stores, Inc.	510,475		24,262,877
			31,985,242

See Notes to Schedule of Investments and Financial Statements

Food Products (0.69%)			
Archer-Daniels-Midland Co.	4,100	$	190,363
Kraft Foods, Inc.	174,575		5,696,382
Sara Lee Corp.	120,296		1,931,954
Tyson Foods, Inc., Class A	136,675		2,095,228
			9,913,927
Household Products (0.79%)			
Colgate-Palmolive Co.	53,800		4,194,248
Procter & Gamble Co.	98,400		7,224,528
			11,418,776
ENERGY (8.99%)			
Energy Equipment & Services (2.61%)			
National Oilwell Varco, Inc. (a)	41,800		3,070,628
Schlumberger Ltd.	272,830		26,838,287
Transocean, Inc.	53,599		7,672,697
			37,581,612
Oil, Gas & Consumable Fuels (6.38%)			
Arch Coal, Inc.	476,350		21,402,406
BP PLC(b)	85,979		6,291,083
Cameco Corp.	81,725		3,253,472
Chevron Corp.	120,000		11,199,600
ConocoPhillips	140,000		12,362,000
Consol Energy, Inc.	327,650		23,433,528
Devon Energy Corp.	116,000		10,313,560
Massey Energy Co.	106,575		3,810,056
			92,065,705
FINANCIALS (20.00%)			
Capital Markets (2.18%)			
Lehman Brothers Holdings, Inc.	96,600		6,321,504
Merrill Lynch & Co., Inc.	182,000		9,769,760
Morgan Stanley	288,800		15,338,168
			31,429,432
Commercial Banks (0.97%)			
Comerica, Inc.	128,675		5,601,223
National City Corp.	27,375		450,593
Wachovia Corp.	211,100		8,028,133
			14,079,949
Consumer Finance (0.79%)			
Capital One Financial Corp.	179,425		8,479,626
Discover Financial Services LLC	188,537		2,843,138
			11,322,764

See Notes to Schedule of Investments and Financial Statements

Diversified Financial Services (4.63%)			
Bank of America Corp.	421,650	$	17,397,279
Citigroup, Inc.	798,725		23,514,464
IntercontinentalExchange, Inc. (a)	59,400		11,434,500
JPMorgan Chase & Co.	330,650		14,432,873
			66,779,116
Insurance (5.39%)			
The Allstate Corp.	182,500		9,531,975
American International Group, Inc.	204,450		11,919,435
Berkshire Hathaway, Inc., Class A(a)	48		6,796,800
Fidelity National Financial, Inc.	507,450		7,413,845
Genworth Financial, Inc., Class A	262,383		6,677,647
MetLife, Inc.	40,225		2,478,664
The Progressive Corp.	582,020		11,151,503
RenaissanceRe Holdings Ltd.	69,450		4,183,668
Torchmark Corp.	138,750		8,398,537
Unum Group	68,400		1,627,236
XL Capital Ltd., Class A	149,025		7,497,448
			77,676,758
Real Estate Investment Trusts (1.89%)			
Annaly Capital Management, Inc.	1,218,725		22,156,420
iStar Financial, Inc.	28,275		736,564
Redwood Trust, Inc.	127,775		4,375,016
			27,268,000
Thrifts & Mortgage Finance (4.15%)			
Countrywide Financial Corp.	192,875		1,724,302
Freddie Mac	884,925		30,149,395
Fannie Mae	601,916		24,064,602
The PMI Group, Inc.	111,400		1,479,392
Washington Mutual, Inc.	180,500		2,456,605
			59,874,296
HEALTH CARE (13.65%)			
Biotechnology (2.22%)			
Amgen, Inc.(a)	113,575		5,274,423
Cephalon, Inc.(a)	86,300		6,192,888
Genentech, Inc.(a)	118,600		7,954,502
Genzyme Corp.(a)	170,400		12,684,576
			32,106,389
Health Care Equipment & Supplies (2.93%)			
Baxter International, Inc.	161,100		9,351,855
Becton Dickinson & Co.	48,200		4,028,556
Boston Scientific Corp. (a)	167,925		1,952,968
Covidien Ltd.	299,800		13,278,142
Stryker Corp.	79,300		5,925,296
Varian Medical Systems, Inc. (a)	150,400		7,844,864
			42,381,681

See Notes to Schedule of Investments and Financial Statements

Health Care Providers & Services (2.85%)			
Aetna, Inc.	179,500	$	10,362,535
AmerisourceBergen Corp.	108,763		4,880,196
Express Scripts, Inc. (a)	127,500		9,307,500
Medco Health Solutions, Inc. (a)	43,600		4,421,040
Omnicare, Inc.	233,800		5,332,978
WellPoint, Inc. (a)	76,900		6,746,437
			41,050,686
Health Care Technology (0.34%)			
Cerner Corp. (a)	86,932		4,902,965
Pharmaceuticals (5.31%)			
Bristol-Myers Squibb Co.	198,775		5,271,513
Johnson & Johnson	304,450		20,306,815
Pfizer, Inc.	770,200		17,506,646
Schering-Plough Corp.	210,200		5,599,728
Teva Pharmaceutical Industries Ltd. (b)	394,400		18,331,712
Wyeth	215,000		9,500,850
			76,517,264
INDUSTRIALS (11.81%)			
Aerospace & Defense (4.96%)			
The Boeing Co.	55,425		4,847,470
Bombardier, Inc., Class (a)	1,078,500		6,512,853
General Dynamics Corp.	94,500		8,409,555
Honeywell International, Inc.	133,600		8,225,752
L-3 Communications Holdings, Inc.	25,300		2,680,282
Lockheed Martin Corp.	99,700		10,494,422
Northrop Grumman Corp.	72,750		5,721,060
Precision Castparts Corp.	45,200		6,269,240
Rockwell Collins, Inc.	103,100		7,420,107
United Technologies Corp.	144,400		11,052,376
			71,633,117
Air Freight & Logistics (1.31%)			
C.H. Robinson Worldwide, Inc	208,068		11,260,640
Expeditors International Washington, Inc.	170,890		7,635,365
			18,896,005
Industrial Conglomerates (2.74%)			
3M Co.	108,800		9,174,016
General Electric Co.	563,100		20,874,117
Tyco International Ltd.	238,000		9,436,700
			39,484,833
Machinery (2.40%)			
Danaher Corp.	51,000		4,474,740
Deere & Co.	153,500		14,293,920
Navistar International Corp. (a)	292,033		15,828,189
			34,596,849

See Notes to Schedule of Investments and Financial Statements

Road & Rail (0.40%)	