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LIBERTY ALL STAR EQUITY FUND

Form N-2

February 22, 2002

As filed with the Securities and Exchange Commission on February 22, 2002

1933 Act File No. 333-  
1940 Act File No. 811-4809

U. S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form N-2

(Check appropriate box or boxes)

- REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
- Pre-Effective Amendment No. \_\_\_\_\_
- Post-Effective Amendment No. \_\_\_\_\_

and

- REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940
- Amendment No. 18

Liberty All-Star Equity Fund

-----  
(Exact Name of Registrant as Specified in Charter)

One Financial Center  
Boston, Massachusetts 02111-2621

-----  
(Address of Principal Executive Offices)  
(Number, Street, City, State, Zip Code)

(617) 426-3750

-----  
Registrant's Telephone Number, including Area Code

Jean S. Loewenberg  
Secretary  
Liberty All-Star Equity Fund  
One Financial Center  
Boston, MA 02111

Jeremiah J. Bresnahan  
Bingham Dana LLC  
150 Federal Street  
Boston, MA 02110

Approximate Date of Proposed Public Offering:

As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box)

- when declared effective pursuant to section 8(c)
- immediately upon filing pursuant to paragraph (b) of Rule 486
- on (date) pursuant to paragraph (b) of Rule 486
- 60 days after filing pursuant to paragraph (a) of Rule 486
- on (date) pursuant to paragraph (a) of Rule 486

This post-effective amendment designates a new effective date for a

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previously filed registration statement.

[ ] The Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration number of the earlier effective registration statement is -----.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

TITLE OF SECURITIES BEING REGISTERED -----	AMOUNT BEING REGISTERED(1) -----	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1) -----	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1) -----	AMOUNT REGISTRATION FEE(1) -----
Shares of Beneficial Interest	10,910,830	\$11.15	\$121,655,755	\$11,165,575

(1) Estimated solely for the purposes of calculating the Registration fee in accordance with Rule 457(c) under the Securities Act of 1933. Based on the average of the high and low sales prices reported on the New York Stock Exchange, Inc. on February 15, 2002.

[ ] Rights for [ ] Shares

LIBERTY ALL-STAR EQUITY FUND

Shares of Beneficial Interest

Liberty All-Star Equity Fund ("All-Star" or the "Fund") is offering rights (the "Rights") to its shareholders (the "Offer"). These Rights will allow you to subscribe for new shares of beneficial interest of All-Star (the "Shares"). For every ten Rights that you receive, you may buy one new All-Star Share. You will receive one Right for each outstanding All-Star Share you own on [ ], 2002 (the "Record Date"). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, Shares may be purchased only pursuant to the exercise of Rights in integral multiples of ten. Also, Shareholders on the Record Date may purchase Shares not acquired by other shareholders in this Rights offering, subject to limitations discussed in this prospectus. The Rights are not transferable and will not be admitted for trading on the New York Stock Exchange ("NYSE"). See "The Offer." THE SUBSCRIPTION PRICE PER SHARE WILL BE 95% OF THE LOWER OF (i) THE LAST REPORTED SALE PRICE ON THE NYSE ON [ ], 2002 (the "Pricing Date") OF A SHARE OF ALL-STAR, OR (ii) THE NET ASSET VALUE OF A SHARE OF ALL-STAR ON THAT DATE.

THE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON [ ], 2002 (the "Expiration Date"). SINCE THE CLOSE OF THE OFFERING ON THE EXPIRATION DATE IS

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PRIOR TO THE PRICING DATE, SHAREHOLDERS WHO CHOOSE TO EXERCISE THEIR RIGHTS WILL NOT KNOW THE SUBSCRIPTION PRICE PER SHARE AT THE TIME THEY EXERCISE SUCH RIGHTS.

For additional information, please call Georgeson Shareholder Communications Inc. (the "Information Agent") toll free at (888) [ ].

All-Star is a multi-managed diversified, closed-end management investment company that allocates its portfolio assets on an approximately equal basis among several independent investment organizations (currently five in number) ("Portfolio Managers") having different investment styles recommended and monitored by Liberty Asset Management Company, All-Star's fund manager ("LAMCO" or "Fund Manager"). All-Star's investment objective is to seek total investment return, comprised of long term capital appreciation and current income. It seeks its investment objective through investment primarily in a diversified portfolio of equity securities. An investment in All-Star is not appropriate for all investors. No assurances can be given that All-Star's investment objective will be achieved. For a discussion of certain risk factors and special considerations with respect to owning Shares of All-Star, see "Special Considerations and Risk Factors" beginning on page [ ] and "Investment Objective, Policies and Risks" on page [ ] of this Prospectus.

The address of All-Star is Federal Reserve Plaza, One Financial Center, Boston, Massachusetts 02211 and its telephone number is (800) 542-3863. All-Star's Shares are listed on the NYSE under the symbol "USA."

All-Star announced the terms of the Offer before the opening of trading on the NYSE on February 13, 2002. The net asset value per Share of beneficial interest of All-Star at the close of business on February 12, 2002 and [ ], 2002 was \$10.14 and \$[ ], respectively, and the last reported sale price of a Share on such Exchange on those dates was \$11.06 and \$[ ], respectively.

Neither the Securities and Exchange Commission nor any State securities commission has approved or disapproved these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a crime.

	Subscription Price(1)	Sales Load
Per Share.....	\$[ ]	NONE
Total.....	\$[ ]	NONE

(1) Estimated based on assumed Subscription Price of 95% of the net asset value on [ ], 2002.

(2) Before deduction of expenses payable by All-Star, estimated at \$315,000.

Shareholders who do not exercise their Rights should expect that they will, at the completion of the Offer, own a smaller proportional interest in the Fund than if they exercised their Rights. As a result of the Offer you may experience an immediate dilution of the aggregate net asset value of your Shares, which under certain circumstances, could be substantial. This is because the Subscription Price per Share and/or the net proceeds to All-Star for each new Share sold will be less than All-Star's net asset value per Share on the

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Expiration Date. All-Star cannot state precisely the extent of this dilution at this time because it does not know what the net asset value or market price per Share will be when the Offer expires or what proportion of the Rights will be exercised.

This Prospectus sets forth concisely the information that a shareholder ought to know before exercising his or her Rights. Investors are advised to read and retain it for future reference. A Statement of Additional Information dated [ ], 2002 has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this Prospectus. The table of contents of the Statement of Additional Information appears on page [ ] of this Prospectus, and a copy is available at no charge by calling the Information Agent at (888) [ ].

The date of this Prospectus is [ ], 2002.

PROSPECTUS SUMMARY

This summary highlights some information that is described more fully elsewhere in this Prospectus. It may not contain all of the information that is important to you. To understand the Offer fully, you should read the entire document carefully, including the risk factors.

Purpose of the Offer

The Board of Trustees of All-Star has determined that it would be in the best interest of All-Star and its Shareholders to increase the assets of All-Star available for investment so that it may be in a better position to take advantage of investment opportunities that may arise. The Offer seeks to reward existing shareholders in All-Star by giving them the opportunity to purchase additional Shares at a price below market and/or net asset value and without incurring any brokerage commissions. See "The Offer-Purpose of the Offer."

Important Terms of the Offer

Total number of Shares available for primary subscription.....	[ ] Shares
Number of Rights you will receive for each outstanding Share you own on the Record Date.....	One Right for every one Share
Number of Shares you may purchase with your Rights at the Subscription Price per Share.....	One Share for every ten Rights
Subscription Price .....	95% of the lower of (i) the NYSE on [ ], 2002 (of All-Star, or (ii) the net All-Star on the Pricing Date

-----  
Shareholders' inquiries should be directed to:  
Georgeson Shareholder Communications Inc.  
(888) [ ]  
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Over-Subscription Privilege

The right to acquire during the Subscription Period at the Subscription Price one additional Share for each ten Rights held is hereinafter referred to as the "Primary Subscription." Shareholders on the Record Date who fully exercise all

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Rights issued to him or her (other than those Rights which cannot be exercised because they represent the right to acquire less than one Share) are entitled to subscribe for Shares which were not otherwise subscribed for by others on Primary Subscription (the "Over-Subscription Privilege"). For purposes of determining the maximum number of Shares a Shareholder may acquire pursuant to the Offer, broker-dealers whose Shares are held of record by Cede & Co., Inc. ("Cede"), nominee for Depository Trust Company, or by any other depository or nominee will be deemed to be the holders of the Rights that are issued to Cede or such other depository or nominee. If enough Shares are available, all Shareholder requests to buy Shares that were not bought by other Rights holders will be honored in full. If the requests for Shares exceed the Shares available, the available Shares will be allocated pro rata among those shareholders on the Record Date who over-subscribe based on the number of Rights originally issued to them by the Fund. Shares acquired pursuant to the Over-Subscription Privilege are subject to allotment, which is more fully discussed under "The Offer--Over-Subscription Privilege."

### Method for Exercising Rights

Except as described below, subscription certificates evidencing the Rights ("Subscription Certificates") will be sent to shareholders on the Record Date ("Record Date Shareholders") or their nominees. If you wish to exercise your Rights, you may do so in the following ways:

(1) Complete and sign the Subscription Certificate. Mail it in the envelope provided or deliver it, together with payment in full to EquiServe Trust Company, N.A. ("Subscription Agent") at the address indicated on the Subscription Certificate. Your completed and signed Subscription Certificate and payment must be received by the Expiration Date.

(2) Contact your broker, banker or trust company, which can arrange, on your behalf, to guarantee delivery of payment and delivery of a properly completed and executed Subscription Certificate pursuant to a notice of guaranteed delivery ("Notice of Guaranteed Delivery") by the close of business on the third business day after the Expiration Date. A fee may be charged for this service. The Notice of Guaranteed Delivery must be received by the Expiration Date.

Rights holders will have no right to rescind a purchase after the Subscription Agent has received payment. See "The Offer - Method of Exercise of Rights" and "The Offer - Payment for Shares."

Since the Expiration Date is prior to the Pricing Date, Shareholders who choose to exercise their Rights will not know at the time they exercise such Rights what the purchase price for Shares acquired pursuant to such exercise will be. Shareholders will have no right to rescind their subscription after receipt of their payment for Shares by the Subscription Agent. Subscription payments will be held by the Subscription Agent pending completion of the processing of the subscription. No interest thereon will be paid to subscribers.

The Rights are not transferable. Therefore, only the underlying Shares, and not the Rights, will be admitted for trading on the NYSE. Since fractional Shares will not be issued on exercise of Rights, shareholders who receive, or are left with, fewer than ten Rights will be unable to exercise such Rights and will not be entitled to receive any cash in lieu of unexercised rights.

Shareholders' inquiries about the Offer should be directed to their broker, bank or trust company, or to:

Georgeson Shareholder Communications Inc.  
(888) [            ]

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### Important Dates to Remember

Please note that the dates in the table below may change if the Offer is extended.

Event	Date
Record Date	[ ], 2002
Subscription Period	[ ], 2002 through [ ], 2002*
Expiration Date (Deadline for delivery of Subscription Certificate together with payment of estimated Subscription Price or for delivery of Notice of Guaranteed Delivery)	[ ], 2002
Pricing Date	[ ], 2002
Deadline for payment of final Subscription Price pursuant to Notice of Guaranteed Delivery	[ ], 2002
Confirmation to Registered Shareholders	[ ], 2002
For Registered Shareholders' Subscriptions - deadline for payment of unpaid balance if final Subscription Price is higher than Estimated Subscription Price	[ ], 2002

\* Unless the Offer is extended.

### Offering Fees and Expenses

Offering expenses incurred by the Fund are estimated to be \$[ ].

### Restrictions on Foreign Shareholders

Record date Shareholders whose record addresses are outside the United States will receive written notice of the Offer; however, Subscription Certificates will not be mailed to such shareholders. The Rights to which those Subscription Certificates relate will be held by the subscription agent for such foreign Record Date Shareholders' accounts until instructions are received in writing with payment to exercise the Rights. If no such instructions are received by the Expiration Date, such Rights will expire. See "Subscription Agent."

### Information about All-Star

All-Star is a multi-managed diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended ("1940 Act") that allocates its assets on an approximately equal basis among a number

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of independent investment management organizations (currently five in number) each having a different investment style. See "The Multi-Manager Concept." All-Star's investment objective is to seek total investment return, comprised of long term capital appreciation and current income. It seeks its objective through investment primarily (at least 80% of total assets under normal conditions) in a diversified portfolio of equity securities. The portion of All-Star's portfolio not invested in equity securities (not more than 20% of total assets under normal conditions) is generally invested in Short-Term Money Market Instruments. See "Investment Objective, Policies and Risks."

All-Star commenced investment operations in November, 1986. Its outstanding Shares of beneficial interest are listed and traded on the NYSE (Symbol "USA"). The average weekly trading volume of the Shares on the NYSE during the year ended December 31, 2001 was [ ] Shares. As of [ ], 2002, All-Star's net assets were \$[ ], and [ ] Shares of All-Star were issued and outstanding.

### Information about Liberty Asset Management Company

LAMCO provides selection, evaluation and monitoring services to All-Star and is responsible for the provision of administrative services to the Fund, some of which are delegated to LAMCO's affiliate, Colonial Management Associates, Inc. ("Colonial"). See "Management of All-Star" for the fees paid by the Fund to LAMCO and by LAMCO to the Portfolio Managers. Since the fees of LAMCO and the Portfolio Managers are based on the average weekly net assets of All-Star, LAMCO and the Portfolio Managers will benefit from the Offer. See "Management of All-Star." As of December 31, 2001, LAMCO managed over \$1.3 billion in assets.

LAMCO, organized in 1985, is a direct wholly owned subsidiary of Columbia Management Group, Inc. (formerly known as Fleet/Liberty Holdings, Inc.), which is a direct wholly owned subsidiary of Fleet National Bank, a national banking association, which in turn is a direct wholly owned subsidiary of FleetBoston Financial Corporation, a U.S. financial holding company. The principal executive offices of LAMCO are located at One Financial Center, Boston, Massachusetts 02111. The principal executive offices of Columbia Management Group, Inc., Fleet National Bank and FleetBoston Financial Corporation are located at 100 Federal Street, Boston, Massachusetts 02110.

### Special Considerations and Risk Factors

The following summarizes some of the matters that you should consider before investing in All-Star through the Offer.

Dilution.....Shareholders who do not fully exercise their Rights should expect that they will, at the completion of the Offer, own a smaller proportional interest in the Fund than if they exercised their Rights. As a result of the Offer you may experience an immediate dilution of the aggregate net asset value of your Shares, which, under certain circumstances, may be substantial. This is because the Subscription Price per Share and/or the net proceeds to the Fund for each new Share sold will be less than the Fund's net asset value per Share on the Expiration Date. Although it is not possible to state precisely the amount of such dilution because it is not known at this time how many Shares will be subscribed for or what the net asset value or market price per Share will be on the Pricing Date, All-Star estimates that such dilution should not be substantial. For example, if All-Star's Shares are trading at a premium from their net asset value of 9.5% (the average premium for the six-month period ended January 31, 2001), and assuming all Rights are exercised, the Subscription Price would be 5% below All-Star's net asset value per Share, resulting in a reduction of such net asset value of approximately \$[ ] per Share, or less than [ ]%. See "Special Considerations and Risk Factors - Dilution."

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Distributions..... All-Star currently has a policy of paying distributions on its Shares totaling approximately 10% of its net asset value per year, payable in four quarterly distributions of 2.5% of its net asset value at the close of the NYSE on the Friday prior to each quarterly declaration date. These fixed distributions, which are not related to All-Star's net investment income or net realized capital gains or losses, will be treated as ordinary dividend income up to the amount of All-Star's current and accumulated earnings and profits. If, for any calendar year, the total distributions made under the 10% pay-out policy exceed All-Star's net investment income and net realized capital gains, the excess will be treated as a tax-free return of capital to each shareholder (up to the amount of the Shareholder's basis in his or her Shares) and thereafter as gain from the sale of Shares. The amount treated as a tax-free return of capital will reduce the Shareholder's adjusted basis in his or her Shares, thereby increasing his or her potential gain or reducing his or her potential loss on the subsequent sale of his or her Shares.

All-Star may, in the discretion of the Board of Trustees, retain for reinvestment, and not distribute, net long-term capital gains in excess of net short-term capital losses ("net capital gain") for any year to the extent that its net investment income and net realized gains exceed the minimum amount required to be distributed for such year under the 10% pay-out policy, although All-Star reserves the right to distribute such excess. Retained net capital gain will be taxed to both All-Star and the Shareholders as long-term capital gains; however, each Shareholder will be able to claim a proportionate share of the federal income tax paid by All-Star as a credit against his or her own federal income tax liability and will be entitled to increase the adjusted tax basis in his or her Shares by the difference between the amount taxed and the credit. See "Distributions; Automatic Dividend Reinvestment and Cash Purchase Plan."

Closed-end fund discounts.....Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that Shares of All-Star will trade at a discount from net asset value is a risk separate and distinct from the risk that All-Star's net asset value will decrease. The risk of purchasing shares of a closed-end fund that might trade at a discount is more pronounced for investors who wish to sell their shares in a relatively short period of time because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. See "Share Price Data."

Anti-takeover Provisions.....All-Star's Declaration of Trust and By-Laws have provisions (commonly referred to as "anti-takeover provisions") which are intended to have the effect of limiting the ability of other entities or persons to acquire control of All-Star, to cause it to engage in certain transactions, or to modify its structure. For instance, the affirmative vote of 75 percent of the Shares of the Fund is required to authorize All-Star's conversion from a closed-end to an open-end investment company, unless such conversion is recommended by All-Star's Board of Trustees, in which event such conversion would only require the majority vote of All-Star's Shareholders, as defined in the 1940 Act. A similar Shareholder vote is required to authorize a merger, sale of a substantial part of the assets or similar transactions with persons beneficially owning five percent or more of All-Star's Shares, unless approved by All-Star's Board of Trustees under certain conditions. These provisions cannot be amended without a similar super-majority vote. In addition, All-Star's Board of Trustees is divided into three



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classes, each of which has a term of three years and only one of which is elected at each annual meeting of shareholders. See "Description of Shares--Anti-takeover Provisions of the Declaration of Trust and By-Laws; Super-majority Vote Requirement for Conversion to Open-End Status."

Repurchase.....You will be free to dispose of your Shares on the NYSE or other markets on which the Shares may trade, but, because the Fund is a closed-end fund, you do not have the right to redeem your Shares.

You should carefully consider your ability to assume the foregoing risks before making an investment in the Fund. An investment in Shares of the Fund is not appropriate for all investors.

**EXPENSES**

Shareholder Transaction Expenses

These are the expenses that an investor incurs when buying Shares of All-Star, whether in this Offer, in the open-market or through All-Star's Automatic Dividend Reinvestment and Cash Purchase Plan, as amended ("Plan").

Sales Load ..... None(1)

Automatic Dividend Reinvestment  
and Cash Purchase Plan Fees ..... \$1.25 per voluntary cash investment

(1) No sales load or commission will be payable in connection with this Offer. Purchases of Shares through brokers in secondary market transactions are subject to brokers' commissions and charges.

Annual Expenses (as a percentage of net assets attributable to beneficial interests)

Management and Administrative Fees .....	0.90%
Other Expenses.....	0.13%
Total Annual Expenses .....	1.03%

Example: You would pay the following expenses on an investment (at net asset value) of \$1,000, assuming a 5% annual return.

1 Year	3 Years	5 Years	10 Years
-----	-----	-----	-----
\$11	\$33	\$57	\$126

These figures are intended to illustrate the effect of All-Star's expenses, but are not meant to predict its future returns and expenses, which may be higher or lower than those shown.

The purpose of the above tables is to assist investors in understanding the various costs and expenses that an investor in All-Star will bear directly or indirectly. The numbers shown under the Annual Expenses table are projections based on All-Star's actual expenses for the year ended December 31, 2001, and on its projected net assets assuming the Offer is fully subscribed for at an assumed Subscription Price of \$[ ] per Share. See "Financial Highlights" for All-Star's actual ratio of expenses to average net assets for the year ended December 31, 2001.

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## FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the Fund's financial performance. Information is shown for the Fund's last ten fiscal years. Certain information reflects financial results from a single Fund Share. The information for the fiscal years ended December 31, 2000 and December 31, 2001 has been audited by [ ], independent accountants. The information included in the Fund's financial statements for periods prior to 1999 had been audited by [ ], another independent auditor, whose report expressed an unqualified opinion on those financial statements and financial highlights. The report of the independent accountants, together with the financial statements of the Fund, are included in the Fund's December 31, 2001 Annual Report and are incorporated by reference into the Statement of Additional Information (see cover page).

	For the Year Ended December			
	2001	2000	1999	1998
<b>PER SHARE OPERATING PERFORMANCE:</b>				
Net asset value at beginning of year	\$13.61	\$14.02	\$14.22	\$14.22
Income from Investment Operations:				
Net investment income	0.03	0.05	0.05	0.05
Net realized and unrealized gain (loss) on investments	(1.79)	0.96	1.22	1.22
Provision for federal income tax	(1.76)	1.01	1.27	1.27
Total from Investment Operations	(1.76)	1.01	1.27	1.27
Less Distributions from:				
Net investment income	(0.03)	(0.06)	(0.05)	(0.05)
Realized capital gains	(1.17)	(1.36)	(1.34)	(1.34)
Return of capital	(1.20)	(1.42)	(1.39)	(1.39)
Total Distributions	(1.20)	(1.42)	(1.39)	(1.39)
Change due to rights offering (b)				
Impact of Shares issued in dividend reinvestment (c)	(1.20)	(1.42)	(1.47)	(1.47)
Total Distributions, Reinvestments and Rights Offering	(1.20)	(1.42)	(1.47)	(1.47)
Net asset value at end of year	\$10.65	\$13.61	\$14.02	\$14.02
Market price at end of year	\$11.09	\$12.375	\$11.063	\$11.063
<b>TOTAL INVESTMENT RETURN FOR SHAREHOLDERS: (d)</b>				
Based on net asset value	(12.7)%	8.8%	10.2%	10.2%
Based on market price	0.0%	25.4%	(4.4)%	(4.4)%
<b>RATIOS AND SUPPLEMENTAL DATA:</b>				
Net assets at end of year (millions)	\$1,133	\$1,376	\$1,396	\$1,396

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Ratio of expenses to average net assets	1.03%	0.96%	0.97%
Ratio of net investment income (loss) 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 Fund's rights offering for Shares at a price below net asset value.
- (c) Effect of payment of a portion of distributions in newly issued Shares valued at a discount from net asset value.
- (d) Calculated assuming all distributions reinvested at the actual reinvestment price and all primary rights exercised.

	For the Year Ended December			
	1996	1995	1994	1993
PER SHARE OPERATING PERFORMANCE:				
Net asset value at beginning of year	\$11.03	\$9.26	\$10.40	\$11.03
Income from Investment Operations:				
Net investment income (loss)	0.08	0.10	0.11	
Net realized and unrealized gains (losses) on investments	2.15(a)	2.71	(0.20)	
Provision for federal income tax	(0.13)	----	----	
Total from Investment Operations	2.10	2.81	(0.09)	
Less Distributions from:				
Net investment income	(0.08)	(0.10)	(0.12)	
Realized capital gain	(1.10)	(0.94)	(0.52)	
Return of capital	----	----	(0.36)	(0.36)
Total Distributions	(1.18)	(1.04)	(1.00)	
Change due to rights offering (b)	----	----	(0.05)	(0.05)
Impact of Shares issued in dividend reinvestment (c)	----	----	----	
Total Distributions, Reinvestments and Rights Offering	(1.18)	(1.04)	(1.05)	
Net asset value at end of year	\$11.95	\$11.03	\$9.26	\$11.03
Market price at end of year	\$11.250	\$10.875	\$8.500	\$11.03
TOTAL INVESTMENT RETURN FOR SHAREHOLDERS: (d)				

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Based on net asset value	21.7%	31.8	(0.8)%
Based on market price	16.2%	41.4	(14.9)%
RATIOS AND SUPPLEMENTAL DATA:			
Net assets at end of year (millions)	\$988	\$872	\$710
Ratio of expenses to average net assets	1.03%	1.06%	1.07%
Ratio of net investment income (loss) to average net assets	0.73%	0.92%	1.16%
Portfolio turnover rate	70%	54%	44%

- (a) Before provision for federal income tax
- (b) Effect of Fund's rights offering for Shares at a price below net asset value.
- (c) Effect of payment of a portion of distributions in newly issued Shares valued at a discount from net asset value.
- (d) Calculated assuming all distributions reinvested at the actual reinvestment price and all primary rights exercised.

SHARE PRICE DATA

Trading in All-Star's Shares on the NYSE commenced on October 24, 1986. For the two years ended December 31, 2001, the high and low sales prices for All-Star's Shares, as reported in the consolidated transaction reporting system, and the highest discount from or premium to net asset value per Share and the net asset value on the day or days when the Shares traded at such high and low sales prices, were as follows:

	High Sales Price	Net Asset Value	Discount from or Premium to Net Asset Value	Low Sales Price	N
2000					V
1st Quarter.....	\$11.75	\$14.52	-19.1%	\$9.75	\$
2nd Quarter.....	\$12.75	\$14.17	-10.0%	\$10.313	\$
3rd Quarter.....	\$13.25	\$14.84	-10.7%	\$12.313	\$
4th Quarter.....	\$13.25	\$14.23	-6.9%	\$11.313	\$
2001					
1st Quarter .....	\$13.57	\$13.80	-1.7%	\$11.50	\$
2nd Quarter.....	\$13.55	\$12.78	6.0%	\$11.50	\$
3rd Quarter.....	\$13.25	\$12.05	9.9%	\$8.60	\$
4th Quarter.....	\$11.85	\$10.33	14.7%	\$10.40	\$

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All-Star's Shares have traded in certain periods at a discount from their net asset value. Certain features of and steps taken by All-Star may have tended to reduce the discount from net asset value at which its Shares might otherwise have traded, although All-Star is not able to determine what effect, if any, these various features and steps may have had. All-Star's current 10% distribution policy (see "Distributions; Automatic Dividend Reinvestment and Cash Purchase Plan-10% Distribution Policy" below), begun in July, 1988, may have contributed to this effect. This trend may also have resulted in whole or in part from other factors, such as the Fund's investment performance and increased attention directed to All-Star by securities analysts and market letters.

The net asset value of a Share of All-Star on [ ], 2002 was \$[ ]. The last reported sale price of an All-Star Share on that day was \$[ ], representing a [discount from/premium to] net asset value of [ ]%.

### INVESTMENT PERFORMANCE

The table below shows two measures of All-Star's return to investors for the one, five, ten and fifteen year periods through December 31, 2001. No. 1 ("All-Star NAV") shows All-Star's investment performance based on a valuation of its Shares at net asset value ("NAV"). No. 2 ("All-Star Price") shows All-Star's investment performance based on the market price of All-Star's Shares. Both measures assume reinvestment of all of the Fund's dividends and distributions in additional Shares pursuant to All-Star's Automatic Dividend Reinvestment and Cash Purchase Plan (see "Distributions; Automatic Dividend Reinvestment and Cash Purchase Plan" below), and full exercise of primary subscription rights in All-Star's 1992, 1993, 1994 and 1998 rights offerings.

The Lipper Large-Cap Core Mutual Fund Average has been included so that the Fund's results may be compared with an unweighted average of the total return of open-end mutual funds classified as large-cap core funds (i.e., mutual funds having investment objectives and policies comparable to All-Star) published by Lipper, Inc. The Lipper Large-Cap Core Average information reflects the total return of the mutual funds included in the average, in each case assuming reinvestment of dividends and distributions. The record of the S&P 500 Index has also been included so that All-Star's results may be compared with those of an unmanaged group of securities widely regarded by investors as representative of the stock market in general. The S&P 500 Index is a broad based capitalization-weighted index which reflects the total return of the securities included in the index.

	No. 1 All-Star NAV	No. 2 All-Star Price	Lipper Large Mutual Fun
1 Year beginning January 1, 2001	-12.7%	0.0%	-13
5 Years beginning January 1, 1996	9.7%	11.9%	8.
10 Years beginning January 1, 1991	11.4%	12.3%	11.
15 Years beginning January 1, 1986	13.0%	12.9%	11.

The above results represent All-Star's past performance and are not intended as a prediction of its future performance. The investment return, net asset value and market value of All-Star's Shares will fluctuate, so that such Shares when

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sold may be worth more or less than their original cost.

### THE OFFER

#### Terms of the Offer

All-Star is issuing to Record Date Shareholders nontransferable Rights to subscribe for the Shares, without par value, of the Fund's beneficial interest. Each such shareholder is being issued one Right for each Share of beneficial interest owned on the Record Date. The Rights entitle the holder to acquire on Primary Subscription at the Subscription Price one Share for each ten Rights held. No Rights will be issued for fractional Shares. Accordingly, Shares may be purchased only pursuant to the exercise of Rights in integral multiples of ten. Rights may be exercised at any time during the Subscription Period, which commences on [ ], 2002 and ends at 5:00 p.m., New York City time, on [ ], 2002, the Expiration Date.

In addition, any Shareholder who fully exercises all Rights initially issued to him or her in the Primary Subscription (other than those Rights which cannot be exercised because they represent the right to acquire less than one Share) is entitled to subscribe for Shares which were not otherwise subscribed for by others on Primary Subscription. For purposes of determining the number of Shares a Shareholder may acquire pursuant to the Offer, broker-dealers whose Shares are held of record on the Record Date by Cede or by any other depository or nominee will be deemed to be the holders of the Rights that are issued to Cede or such other depository or nominee on their behalf. Shares acquired pursuant to the Over-Subscription Privilege are subject to allotment, which is more fully discussed below under "Over-Subscription Privilege."

The Rights are not transferable. Therefore, only the underlying Shares, and not the Rights, will be admitted for trading on the NYSE. Since fractional Shares will not be issued, shareholders who receive, or who are left with, fewer than ten Rights will be unable to exercise such Rights and will not be entitled to receive any cash in lieu of such fractional Shares.

The Rights will be evidenced by Subscription Certificates which will be mailed to Record Date Shareholders. Rights may be exercised by completing a Subscription Certificate and delivering it, together with payment by means of (i) a check or money order, or (ii) a Notice of Guaranteed Delivery, to the Subscription Agent during the Subscription Period. The method by which Rights may be exercised and the Shares paid for is set forth below under "Method of Exercise of Rights" and "Payment for Shares."

#### Purpose of the Offer

The Board of Trustees of All-Star has determined that it would be in the best interests of All-Star and its Shareholders to increase the assets of All-Star available for investment thereby permitting the Fund to be in a better position to more fully take advantage of investment opportunities that may arise, and that the potential benefits of the Offer to All-Star and its shareholders will outweigh the dilution to shareholders who do not fully exercise their Rights. The proceeds of the Offer will enable All-Star's Portfolio Managers to take advantage of perceived investment opportunities without having to sell existing portfolio holdings which they otherwise would retain. The Offer seeks to reward investors by giving existing shareholders the opportunity to purchase additional Shares at a price below market and/or net asset value and without brokerage commissions. In addition, the Offer will enhance the likelihood that All-Star will continue to have sufficient assets remaining after the distributions called for by its current 10% distribution policy to permit the Fund to maintain the current ratio of its fixed expenses to its net assets.

All-Star's Fund Manager and Portfolio Managers will benefit from the Offer

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because their fees are based on the average weekly net assets of All-Star. See "Management of All-Star." It is not possible to state precisely the amount of additional compensation they will receive as a result of the Offer because it is not known how many Shares will be subscribed for and because the net proceeds of the Offer will be invested in additional portfolio securities that will fluctuate in value. One of All-Star's Trustees who voted to authorize the Offer is an "interested person," within the meaning of the 1940 Act, of LAMCO, and therefore could benefit indirectly from the Offer. The other four Trustees are not "interested persons" of All-Star or LAMCO.

All-Star may, in the future and at its discretion, choose to make additional rights offerings from time to time for a number of Shares and on terms which may or may not be similar to the Offer. Any such future rights offering will be made in accordance with the 1940 Act. In 1992, All-Star completed a rights offering to shareholders of 5,464,168 additional Shares at a subscription price of \$10.05 per Share, for proceeds to the Fund after expenses of \$54,683,782. In 1993, All-Star completed a second rights offering to shareholders of 4,227,570 additional Shares at a subscription price of \$10.41 per Share, for proceeds to the Fund after expenses of \$43,759,004. In 1994, All-Star completed a third rights offering to shareholders of 4,704,931 additional Shares at a subscription price of \$9.14 per Share, for proceeds to the Fund after expenses of \$42,793,069. In 1998, All-Star completed a fourth rights offering to shareholders of 4,318,134 additional Shares at a subscription price of \$12.83 per Share, for proceeds to the Fund after expenses of \$55,166,659. All four rights offerings were oversubscribed. Under the laws of Massachusetts, the state in which the Fund is organized, the Board of Trustees is authorized to approve rights offerings without obtaining shareholder approval. The staff of the Securities and Exchange Commission ("SEC") has interpreted the 1940 Act as not requiring shareholder approval of a rights offering at a price below the then current net asset value so long as certain conditions are met, including a good faith determination by the fund's board of trustees that such offering would result in a net benefit to existing shareholders.

### Over-Subscription Privilege

If all of the Rights initially issued in the Primary Subscription are not exercised, any Shares for which Subscriptions have not been received ("Excess Shares") will be offered, by means of the Over-Subscription Privilege, to Record Date Shareholders who have exercised all the Rights initially issued to them and who wish to acquire more than the number of Shares for which the Rights issued to them are exercisable. Record Date Shareholders who exercise all the Rights initially issued to them will have the opportunity to indicate on the Subscription Certificate how many Shares they are willing to acquire pursuant to the Over-Subscription Privilege. If sufficient Excess Shares remain, all over-subscriptions will be honored in full. If sufficient Excess Shares are not available to honor all over-subscriptions, the available Excess Shares will be allocated (subject to elimination of fractional Shares) among those who over-subscribe based on the number of Rights originally issued to them by the Fund. The allocation process may involve a series of allocations in order to assure that the total number of Shares available for over-subscriptions is distributed on a pro rata basis.

The method by which Excess Shares will be distributed and allocated pursuant to the Over-Subscription Privilege is as follows. Excess Shares will be available for purchase pursuant to the Over-Subscription Privilege only to the extent that the maximum number of Shares is not subscribed for through the exercise of the Primary Subscription by the Expiration Date. If the Excess Shares are not sufficient to satisfy all subscriptions pursuant to the Over-Subscription Privilege, the Excess Shares will be allocated pro rata (subject to the elimination of fractional Shares) among those holders of Rights exercising the Over-Subscription Privilege, in proportion, not to the number of Shares requested pursuant to the Over-Subscription Privilege, but to the number of

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Shares held on the Record Date; provided, however, that if this pro rata allocation results in any holder being allocated a greater number of Excess Shares than the holder subscribed for pursuant to the exercise of such holder's Over-Subscription Privilege, then such holder will be allocated only such number of Excess Shares as such holder subscribed for and the remaining Excess Shares will be allocated among all other holders exercising Over-Subscription Privileges. The formula to be used in allocating the Excess Shares is as follows:

Holder's Record Date Position		
-----		
Total Record Date Position	x	Excess Shares
of all Oversubscribers		Remaining

The allocation process may involve a series of allocations in order to assure that the total number of Shares available for Over-Subscription is distributed on a pro rata basis. The Fund will not offer or sell any Shares which are not subscribed for under the Primary Subscription or the Over-Subscription Privilege.

### The Subscription Price

The Subscription Price for the Shares to be issued pursuant to the Rights will be 95% of the lower of (i) the last reported sale price of a Share of All-Star on the NYSE on [ ], 2002, the Pricing Date, or (ii) the net asset value of a Share of All-Star on the Pricing Date.

All-Star announced the terms of the Offer before the opening of trading on the NYSE on February 13, 2002. The net asset value per Share of All-Star at the close of business on February 12, 2002 and on [ ], 2002 was \$10.19 and \$[ ], respectively, and the last reported sale price of a Share on the NYSE on those dates was \$11.06 and \$[ ], respectively, representing a [ ]% and a [ ]% [discount/premium], respectively, in relation to the net asset value per Share at the close of business on these dates.

### Expiration of the Offer

The Offer will expire at 5:00 p.m., New York City time, on [ ], 2002. Rights will expire on the Expiration Date and thereafter may not be exercised, unless the Offer is extended. Since the Expiration Date is prior to the Pricing Date, shareholders who decide to acquire Shares on Primary Subscription or pursuant to the Over-Subscription Privilege will not know, when they make such decision, what the purchase price for such Shares will be.

Any extension, termination, or amendment of the Offer will be followed as promptly as practicable by announcement thereof, such announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the next business day following the previously scheduled Expiration Date. The Fund will not, unless otherwise required by law, have any obligation to publish, advertise, or otherwise communicate any such announcement other than by making a release to the Dow Jones News Service or such other means of announcement as the Fund deems appropriate.

### Subscription Agent

The Subscription Agent is EquiServe Trust Company, N.A., P.O. Box 43025, Providence, RI 02940-3025. EquiServe Trust Company N.A. is also the Fund's dividend paying agent, transfer agent and registrar. The Subscription Agent will receive from All-Star a fee estimated to be no more than \$[ ] and reimbursement for its out-of-pocket expenses related to the Offer. Inquiries by all holders of Rights should be directed to P.O. Box 43025, Providence, RI 02940-3025



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(telephone (800) [ ]); holders may also consult their brokers or nominees.

Information Agent

Any questions or requests for assistance regarding the Offer may be directed to the Information Agent at its telephone number and address listed below:

Georgeson Shareholder Communications Inc.
111 Commerce Road
Carlstadt, New Jersey 07072-2586

Call Toll Free (888) [ ]

The Information Agent will receive a fee estimated at approximately \$[ ] plus reimbursement for its out-of-pocket expenses.

Method of Exercise of Rights

Rights may be exercised by filling in and signing the reverse side of the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Subscription Agent, together with payment for the Shares as described below under "Payment for Shares." Rights may also be exercised through a Rights holder's broker, who may charge such Rights holder a servicing fee in connection with such exercise. Fractional Shares will not be issued, and Rights holders who receive, or who are left with, fewer than ten Rights will not be able to exercise such Rights.

Completed Subscription Certificates and related payments must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date (unless payment is effected by means of a Notice of Guaranteed Delivery as described below under "Payment for Shares") at the offices of the Subscription Agent at one of the addresses set forth below.

The Subscription Certificate and payment should be sent to EQUISERVE TRUST COMPANY, N.A. by one of the following methods:

Subscription Certificate
Delivery Method
-----

Address
-----

If By Mail:

EquiServe
Att: Corporate Actions
P.O. Box 43025
Providence, RI 02940-3025

If By Hand:

Securities Transfer and Reporting Servi
c/o EquiServe
100 Williams St. Galleria
New York, NY 10038

If By Overnight Courier or
Express Mail:

EquiServe
Attn: Corporate Actions
40 Campanelli Drive
Braintree, MA 02184

By Broker-Dealer or
other Nominee:
(Notice of Guaranteed

Shareholders whose Shares are held in a
bank or trust account may contact their
other nominee and instruct them to subm

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Delivery)

of Guaranteed Delivery and payment on t  
behalf.

Delivery by any method or to any address not listed above will not constitute good delivery.

All questions as to the validity, form, eligibility (including times of receipt and matters pertaining to beneficial ownership) and the acceptance of subscription forms and the Subscription Price will be determined by All-Star, which determinations will be final and binding. No alternative, conditional or contingent subscriptions will be accepted. All-Star reserves the absolute right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of the Fund's counsel, be unlawful. All-Star also reserves the right to waive any irregularities or conditions, and the Fund's interpretations of the terms and conditions of the Offer shall be final and binding. Any irregularities in connection with subscriptions must be cured within such time, if any, as the Fund shall determine unless waived. Neither All-Star nor the Subscription Agent shall be under any duty to give notification of defects in such subscriptions or incur any liability for failure to give such notification. Subscriptions will not be deemed to have been made until such irregularities have been cured or waived.

### Payment for Shares

Holders of Rights who subscribe for Shares on Primary Subscription or pursuant to the Over-Subscription Privilege may choose between the following methods of payment:

(1) A subscription will be accepted by the Subscription Agent if, prior to 5:00 p.m., New York City time, on the Expiration Date, the Subscription Agent shall have received a Notice of Guaranteed Delivery, by facsimile or otherwise, from a bank or trust company or a NYSE or National Association of Securities Dealers member firm, guaranteeing delivery of (a) payment of the full Subscription Price for the Shares subscribed for on Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege and (b) a properly completed and executed Subscription Certificate. The Subscription Agent will not honor a Notice of Guaranteed Delivery if a properly completed and executed Subscription Certificate and full payment for the Shares is not received by the Subscription Agent by [ ], 2002. The Notice of Guaranteed Delivery may be delivered to the Subscription Agent in the same manner as Subscription Certificates at the addresses set forth above, or may be transmitted to the Subscription Agent by facsimile transmission (telecopy number (781) 575-4826; telephone number to confirm receipt (781) 575-4816).

(2) Alternatively, a holder of Rights can, together with the Subscription Certificate, send payment for the Shares acquired on Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege to the Subscription Agent based on an estimated subscription price of \$[ ] per Share. To be accepted, such payment, together with the Subscription Certificate, must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date. The Subscription Agent will not accept cash as a means of payment for Shares. Except as otherwise set forth below, a payment pursuant to this method must be in United States dollars by money order or check drawn on a bank located in the continental United States, must be payable to the Liberty All-Star Equity Fund, and must accompany an executed Subscription Certificate to be accepted.

Within ten business days following the Expiration Date (the "Confirmation Date" ), a confirmation will be sent by the Subscription Agent to each shareholder exercising his or her Rights (or, if the All-Star Shares on the Record Date are

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held by Cede or any other depository or nominee, to Cede or such other depository or nominee), showing (i) the number of Shares acquired pursuant to the Primary Subscription; (ii) the number of Shares, if any, acquired pursuant to the Over-Subscription Privilege; (iii) the per Share and total purchase price for the Shares; and (iv) any additional amount payable by such shareholder to All-Star or any excess to be refunded by All-Star to such shareholder, in each case based on the Subscription Price as determined on the Pricing Date. Any additional payment required from a shareholder must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on [ ], 2002, and any excess payment to be refunded by All-Star to such shareholder will be mailed by the Subscription Agent with the confirmation. All payments by a shareholder must be in United States dollars by money order or check drawn on a bank located in the United States of America and be payable to Liberty All-Star Equity Fund. Such payments will be held by the Subscription Agent pending completion of the processing of the subscription, and will then be paid to All-Star. Any interest earned on such amounts will accrue to All-Star and none will be paid to the subscriber.

Whichever of the above two methods of payment is used, issuance and delivery of the Shares subscribed for are subject to collection of checks and actual payment pursuant to any Notice of Guaranteed Delivery.

Rights holders will have no right to rescind their subscription after receipt of their payment for Shares by the Subscription Agent.

If a holder of Rights who acquires Shares pursuant to the Primary Subscription or the Over-Subscription Privilege does not make payment of any amounts due, All-Star reserves the right to take any or all of the following actions: (i) find other purchasers for such subscribed and unpaid for Shares; (ii) apply any payment actually received by it toward the purchase of the greatest number of whole Shares which could be acquired by such holder upon exercise of the Primary Subscription or the Over-Subscription Privilege; (iii) sell in the open market all or a portion of the Shares purchased by the holder, and apply the proceeds to the amounts owed; and (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Shares to enforce the relevant guaranty of payment or monetary damages.

All-Star shareholders whose Shares are held by a broker-dealer, bank, trust company or other nominee should contact the nominee to exercise their Rights and request the nominee to exercise their Rights in accordance with their instructions.

Brokers, banks, trust companies, depositories and other nominees who hold All-Star Shares for the account of others should notify the respective beneficial owners of such Shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to exercising the Rights. If the beneficial owner so instructs, the record holder of such Right should complete Subscription Certificates and submit them to the Subscription Agent with the proper payment.

The instructions contained on the Subscription Certificate should be read carefully and followed in detail. Do Not Send Subscription Certificates to All-Star. (They should be sent to EquiServe Trust Company, N.A. as indicated above).

The method of delivery of Subscription Certificates and payment of the Subscription Price to the Subscription Agent will be at the election and risk of the Rights holders, but if sent by mail it is recommended that the certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment prior to 5:00 p.m., New York

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City time, on the Expiration Date. Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of a certified or cashier's check or money order. Shares will not be delivered until checks have cleared.

### Delivery of Stock Certificates

Participants in All-Star's Automatic Dividend Reinvestment and Cash Purchase Plan who exercise the Rights issued on the Shares held in their accounts in the Plan will have their Shares acquired on Primary Subscription and pursuant to the Over-Subscription Privilege credited to their shareholder distribution reinvestment accounts in the Plan. Shareholders whose Shares are held of record by Cede or by any other depository or nominee on their behalf or their broker-dealers' behalf will have their Shares acquired on Primary Subscription and pursuant to the Over-Subscription Privilege credited to the account of Cede or such other depository or nominee. With respect to all other shareholders, stock certificates for all Shares acquired on Primary Subscription and pursuant to the Over-Subscription Privilege will be mailed, together with the confirmation and refund of the amount, if any, paid in excess of the final Subscription Price, on or about [ ], 2002 if the estimated Subscription Price is equal to or in excess of the final Subscription Price. If the shareholder's confirmation shows that an additional amount is payable due to the final Subscription Price exceeding the estimated Subscription Price, the stock certificates will be mailed on or about [ ], 2002, provided that such additional amount has been paid and payment for the Shares subscribed for has cleared, which clearance may take up to five days from the date of receipt of the payment. If such payment does not clear within five business days from the date of receipt, All-Star may exercise its rights in the event of nonpayment under "Payment for Shares" above.

Record Date Shareholders whose record addresses are outside the United States will receive written notice of the Offer; however, Subscription Certificates will not be mailed to such shareholders. The Rights to which those Subscription Certificates relate will be held by the Subscription Agent for such foreign Record Date Shareholders' accounts until instructions are received in writing with payment to exercise the Rights. If no such instructions are received by the Expiration Date, such Rights will expire. See "Subscription Agent".

### Federal Income Tax Consequences

The following is a general summary of the significant federal income tax consequences of the receipt of Rights by a Record Date Shareholder and a subsequent lapse or exercise of Rights. The discussion is based on applicable provisions of the Internal Revenue Code of 1986, as amended ("Code"), the Treasury Regulations promulgated thereunder and other authorities currently in effect, all of which are subject to change, possibly with a retroactive effect. This discussion does not purport to be complete or to deal with all aspects of federal income taxation that may be relevant to shareholders in light of their particular circumstances or to shareholders subject to special treatment under the Code (such as insurance companies, financial institutions, tax-exempt entities, employee benefit plans, dealers in securities, foreign corporations and persons who are not U.S. citizens or residents), and does not address any state, local or foreign tax consequences.

For federal income tax purposes, neither the receipt nor the exercise of the Rights by Record Date Shareholders will result in taxable income to them, and they will realize no loss with respect to any Rights that expire without being exercised. All-Star will realize no gain or loss on the issuance, exercise or expiration of the Rights.

A Record Date Shareholder's holding period for a Share acquired on exercise of Rights will begin with the date of exercise, and the shareholder's basis for

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determining gain or loss on the sale of that Share will equal the sum of the shareholder's basis in the exercised Rights, if any, plus the Subscription Price for the Share. A Record Date Shareholder's basis in Rights will be zero unless either (1) the Rights' fair market value on the date of distribution is 15% or more of the fair market value on that date of the Shares with respect to which the Rights were distributed or (2) the shareholder elects, on his, her or its federal income tax return for the taxable year in which the Rights are received, to allocate part of the basis of those Shares to the Rights. If either clause (1) or (2) applies, then if the Rights are exercised, the shareholder will allocate his, her or its basis in the Shares with respect which the Rights were distributed between those Shares and the Rights in proportion to their respective fair market values on the distribution date. A Record Date Shareholder's gain or loss recognized on sale of a Share acquired on the exercise of Rights will be a capital gain or loss (assuming the Share was held as a capital asset at the time of sale) and will be long-term capital gain or loss, taxable at a maximum rate of 20% in the case of a noncorporate shareholder, if the shareholder then held the Share for more than one year.

### Employee Benefit Plan Considerations

Shareholders that are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (including separate profit sharing/retirement and savings plans, and plans for self-employed individuals and their employees) and individual retirement accounts ("IRAs" (collectively, "Retirement Plans") should be aware that additional contributions of cash to a Retirement Plan (other than rollover contributions or trustee-to-trustee transfers from other Retirement Plans) in order to exercise Rights may, when taken together with contributions previously made, be treated as excess or nondeductible contributions subject to excise taxes. In the case of Retirement Plans qualified under section 401(a) of the Code, additional cash contributions could cause violations of the maximum contribution limitations of section 415 of the Code or other qualification rules. Retirement Plans in which contributions are so limited should consider whether there is an additional source of funds available within the Retirement Plan, including the liquidation of assets, with which to exercise the Rights. Because the rules governing Retirement Plans are extensive and complex, Retirement Plans contemplating the exercise of Rights should consult with their counsel prior to such exercise.

Retirement Plans and other tax-exempt entities, including governmental plans, should also be aware that if they borrow to finance their exercise of Right, they become subject to tax on unrelated business taxable income under Section 511 of the Code. If any portion of an IRA is used as security for a loan, that portion will be treated as a distribution to the IRA owner.

ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transaction rules, that may impact the exercise of Rights. Due to the complexity of these requirements and rules and the penalties for non-compliance, Retirement Plans should consult with their counsel regarding the consequences of their exercise of Rights under ERISA and the Code.

### SPECIAL CONSIDERATIONS AND RISK FACTORS

#### Dilution

If you do not exercise all of your Rights during the Subscription Period, when the Offering is over you will own a relatively smaller percentage of the Fund than if you had exercised all of your Rights. The Fund cannot tell you precisely how much smaller the percentage of the Fund that you would own because the Fund does not know how many of the Fund's Record Date Shareholders will exercise their Rights and how many of their Rights they will exercise.

Shareholders will experience an immediate dilution of the aggregate NAV of

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Shares as a result of the completion of the Offer because (i) the Subscription Price per Share will be less than the Fund's NAV per Share on the Expiration Date, (ii) the Fund will incur expenses in connection with the Offer, and (iii) the number of Shares outstanding after the Offer will increase in a greater percentage than the increase in the size of the Fund's assets. This dilution also will affect Record Date Shareholders to a greater extent if they do not exercise their Rights in full. It is not possible to state precisely the amount of any decreases in either NAV or in ownership interests, because it is not known at this time what the NAV per Share will be at the Expiration Date or what proportion of the Shares will be subscribed. Finally, there may be a dilution of earnings per Share due to the increase in the number of Shares outstanding, but only to the extent that investments of the proceeds of the Offer do not achieve the same return as current investments held by the Fund. To the extent such investments achieve a better return than current investments, earnings per Share will experience appreciation.

The following example assumes that all of the Shares are sold at the assumed Subscription Price of \$[ ] and after deducting all expenses related to the issuance of the Shares.

	NAV per Share on [                    ], 2002 -----	Dilution per Share in Dollars -----	Percentage Dilution -----
Primary Subscription or [            ] Shares	\$[            ]	\$[            ]	[            ]%

### Market Value and Net Asset Value

The shares of closed-end investment companies frequently trade at a discount from net asset value. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that the Fund's net asset value may decrease. Since the commencement of the Fund's operations, the Fund's Shares have traded in certain periods in the market at a discount to net asset value. See "Share Price Data." The risk of purchasing shares of a closed-end fund that might trade at a discount is more pronounced if you wish to sell your shares in a relatively short period of time. If you do so, realization of a gain or loss on your investment is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. The Fund's Shares are not subject to redemption. Investors desiring liquidity may, subject to applicable securities laws, trade their Shares in the Fund on any exchange where such Shares are then trading at current market value, which may differ from the then current net asset value. Moreover, Shareholders expecting to sell their Shares during the course of the Offer should be aware that there is a greater risk that the potential discount referred to above, which may increase during the Offer, will adversely affect them. This increased risk is because, among other things, the market price per Share may reflect the anticipated dilution that will result from this Offer. The Fund cannot predict whether the Shares will trade at a discount or premium to NAV after completion of the Offer.

### Possible Suspension of the Offer

All-Star has, as required by the Securities and Exchange Commission's registration form, undertaken to suspend the Offer until it amends this Prospectus if subsequent to [ ], 2002, the effective date of the Fund's Registration Statement, All-Star's net asset value declines more than 10% from its net asset value as of [ ], 2002. Accordingly, All-Star will notify

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shareholders of any such decline and thereby permit them to cancel their exercise of Rights.

### USE OF PROCEEDS

The net proceeds of the Offer, assuming that all Shares offered hereby are sold at an assumed Subscription Price of \$[ ] per Share, are estimated to be approximately \$[ ], after deducting expenses payable by All-Star estimated at \$[ ]. Such net proceeds will be invested by All-Star's Portfolio Managers in portfolio securities in accordance with All-Star's investment objective and policies. It is anticipated that investment of such net proceeds under normal market conditions will take place during a period of approximately 30 days from their receipt by All-Star, and would in any event be completed within three months. Pending such investment the net proceeds will be invested in Short-Term Money Market Instruments (as defined under "Investment Objective, Policies and Risks" below).

### THE MULTI-MANAGER CONCEPT

All-Star allocates its portfolio assets on an approximately equal basis among a number of independent investment management firms ("Portfolio Managers"), currently five in number, recommended by LAMCO, each of which employs a different investment style, and from time to time rebalances the portfolio among the Portfolio Managers so as to maintain an approximately equal allocation of the portfolio among them throughout all market cycles.

In the opinion of LAMCO, the multi-manager concept provides advantages over the use of a single manager because of the following primary factors:

- (i) most equity investment management-firms consistently employ a distinct investment style which causes them to emphasize stocks with particular characteristics;
- (ii) because of changing investor preferences, any given investment style will move into and out of market favor and will result in better investment performance under certain market conditions but less successful performance under other conditions;
- (iii) consequently, by allocating All-Star's portfolio on an approximately equal basis among Portfolio Managers employing different styles, the impact of any one such style on investment performance will be diluted, and the investment performance of the total portfolio will be more consistent and less volatile over the long-term than if a single style were employed throughout the entire period;
- (iv) consistent performance at a given annual rate of return over time produces a higher rate of return for the long-term than more volatile performance having the same average annual rate of return.

LAMCO, based on the foregoing principles and on its analysis and evaluation of information regarding the personnel and investment styles and performance of a universe of numerous professional investment management firms, has selected for appointment by All-Star a group of Portfolio Managers representing a blending of different investment styles which, in its opinion, is appropriate to All-Star's investment objective.

LAMCO continuously monitors the performance and investment styles of All-Star's Portfolio Managers and from time to time recommends changes of Portfolio Managers based on factors such as changes in a Portfolio Manager's investment

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style or a departure by a Portfolio Manager from the investment style for which it had been selected, a deterioration in a Portfolio Manager's performance relative to that of other investment management firms practicing a similar style, or adverse changes in its ownership or personnel. Portfolio Manager changes may also be made to change the mix of investment styles employed by All-Star's Portfolio Managers. Since its inception, All-Star has had eleven Portfolio Manager changes.

All-Star Portfolio Manager changes, as well as the periodic rebalancings of its portfolio among the Portfolio Managers and the need to raise cash for All-Star's quarterly distributions, may result in some portfolio turnover in excess of what would otherwise be the case (see "Financial Highlights" above). Increased portfolio turnover would cause increased brokerage commission costs to All-Star, and may result in greater realization of capital gains, which are taxable to shareholders.

Under the terms of an exemptive order issued to All-Star and LAMCO by the Securities and Exchange Commission, a portfolio management agreement with a new or additional Portfolio Manager may be entered into in advance of shareholder approval, provided that the new agreement is at a fee no higher than that provided in, and is on other terms and conditions substantially similar to, All-Star's agreements with its other Portfolio Managers, and that its continuance is subject to approval by shareholders at All-Star's regularly scheduled annual shareholder meeting (normally held in April) next following the date of the new or additional portfolio management agreement. Information about Portfolio Manager changes or additions made in advance of shareholder approval will be announced to the press following Board of Trustees action and will be included in the next report to shareholders.

All-Star's current Portfolio Managers are:

Mastrapasqua & Associates, Inc.  
Oppenheimer Capital LLC  
Boston Partners Asset Management, L.P.  
Westwood Management Corp.  
TCW Investment Management Company

It is expected that on March 1, 2002, Schneider Capital Management Corporation will replace Westwood Management Corp. as a Portfolio Manager of All-Star. On February 12, 2002, the Board of Trustees approved this change as well as the proposed Portfolio Management Agreement between All-Star, LAMCO and Schneider Capital Management Corporation. The new Portfolio Management Agreement with Schneider Capital Management Corporation will be substantially identical to one currently in place with Westwood Management Corp. Under the new Portfolio Management Agreement, Schneider Capital Management Corporation will be paid the same portfolio management fee that was paid to Westwood Management Corp. prior to the effective date of the change (see "Management of All-Star" below).

See Appendix A for information about these Portfolio Managers, including the employees primarily responsible for the day-to-day management of the portion of All-Star's portfolio allocated to each.

### INVESTMENT OBJECTIVE, POLICIES AND RISKS

All-Star's investment objective is to seek total investment return, comprised of long term capital appreciation and current income. It seeks its investment objective through investment primarily in a diversified portfolio of equity securities.

All-Star invests primarily (at least 80% under normal market conditions) in equity securities, defined as common stocks and securities convertible into common stocks such as bonds and preferred stocks, and securities having common



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stock characteristics such as warrants and rights to purchase equity securities (although, as a non-fundamental policy, not more than 20% of the value of All-Star's total assets will be invested in rights and warrants). All-Star may lend its portfolio securities, write covered call and put options and engage in options and futures strategies (see "Investment Practices" below).

Although under normal market conditions All-Star will remain substantially fully invested in equity securities, up to 20% of the value of All-Star's total assets may generally be invested in short-term money market instruments, including certificates of deposit (negotiable certificates issued against bank deposits), other interest-bearing bank deposits such as savings and money market accounts, and bankers' acceptances (short-term bank-guaranteed credit instruments used to finance transactions in goods) of domestic branches of U.S. banks having assets of not less than \$1 billion, obligations issued or guaranteed by the U.S. Government and its agencies and instrumentalities ("U.S. Government Securities"), commercial paper (unsecured short-term promissory notes issued by corporations) rated not lower than A-1 by Standard & Poor's Corporation ("S&P") or Prime-1 by Moody's Investors Service, Inc. ("Moody's"), short-term corporate debt securities rated not lower than AA by S&P or Aa by Moody's, and repurchase agreements with respect to the foregoing (collectively, "Short-Term Money Market Instruments"). All-Star may temporarily invest without limit in Short-Term Money Market Instruments for defensive purposes when LAMCO or the Portfolio Managers deem that market conditions are such that a more conservative approach to investment is desirable.

All-Star's investment objective of seeking total investment return and its policy of investing under normal market conditions at least 80% of the value of its total assets in equity securities, as well as certain of its investment restrictions referred to under Reducing Risk below and in the Statement of Additional Information, are fundamental and may not be changed without a majority vote of All-Star's outstanding Shares. Under the 1940 Act, a "majority vote" means the vote of the lesser of (a) 67% of the Shares of All-Star represented at a meeting at which the holders of more than 50% of the outstanding Shares of All-Star are present or represented, or (b) more than 50% of the outstanding Shares of All-Star. Non-fundamental policies may be changed by vote of the Board of Trustees.

### Investment Practices

The following describes certain of the investment practices in which one or more of All-Star's Portfolio Managers may engage, each of which may involve certain special risks.

**Lending of Portfolio Securities.** Although All-Star has not to date engaged in securities lending, consistent with applicable regulatory requirements, All-Star, in order to generate additional income, may lend its portfolio securities (principally to broker-dealers) where such loans are callable at any time and are continuously secured by collateral (cash or U.S. Government Securities) equal to not less than the market value, determined daily, of the securities loaned. All-Star would receive amounts equal to the interest on the securities loaned. It will also be paid for having made the loan. Any cash collateral pursuant to these loans would be invested in Short-Term Money Market Instruments. All-Star could be subjected to delays in recovering the loaned securities in the event of default or bankruptcy of the borrower. All-Star will limit such lending to not more than 30% of the value of All-Star's total assets. The Fund may pay fees to its custodian bank or others for administrative services in connection with securities loans.

**Repurchase Agreements.** All-Star may enter into repurchase agreements with banks or broker-dealer firms whereby such institutions sell U.S. Government Securities or other securities in which it may invest to All-Star and agree at the time of sale to repurchase them at a mutually agreed upon time and price. The resale

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price is greater than the purchase price, reflecting an agreed-upon interest rate which is effective during the time between the purchase and resale and is not related to the stated interest rate on the purchased securities. All-Star requires the seller of the securities to maintain on deposit with All-Star's custodian bank securities in an amount at all times equal to or in excess of the value of the repurchase agreement. In the event that the seller of the securities defaults on its repurchase obligation or becomes bankrupt, All-Star could receive less than the repurchase price on the sale of the securities to another party or could be subjected to delays in selling the securities. Upon normal market conditions, not more than 35% of All-Star's total assets will be invested in Short-Term Money Market Instruments, including repurchase agreements, and not more than 10% of All-Star's net assets will be invested in repurchase agreements maturing in more than seven days.

Options and Futures Strategies. All-Star may seek to increase the current return of All-Star's portfolio by writing covered call or put options with respect to the types of securities in which All-Star is permitted to invest. Call options written by the Fund give the purchaser the right for a stated period to buy the underlying securities from All-Star at a stated price; put options written by the Fund give the purchaser the right for a stated period to sell the underlying securities to All-Star at a stated price. By writing a call option, All-Star limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option; by writing a put option, All-Star assumes the risk that it may be required to purchase the underlying security at a price in excess of its current market value.

All-Star may purchase put options to protect its portfolio holdings in the underlying security against a decline in market value. It may purchase call options to hedge against an increase in the prices of portfolio securities that it plans to purchase. By purchasing put or call options, All-Star, for the premium paid, acquires the right (but not the obligation) to sell (in the case of a put option) or purchase (in the case of a call option) the underlying security at the option exercise price, regardless of the then current market price.

All-Star may also seek to hedge against declines in the value of securities owned by it or increases in the price of securities it plans to purchase, or to gain or maintain market exposure, through the purchase of stock index futures and related options. For example, All-Star may purchase stock index futures and related options to enable a newly appointed Portfolio Manager to gain immediate exposure to underlying securities markets pending the investment of the portion of All-Star portfolio assigned to it. A stock index future is an agreement in which one party agrees to deliver to the other an amount of cash equal to a specific dollar amount times the difference between the value of the specific stock index at the close of the last trading day of the contract and the price at which the agreement is made.

Expenses and losses incurred as a result of the hedging strategies described above will reduce All-Star's current return.

Transactions in options and futures contracts may not achieve the intended goals of protecting portfolio holdings against market declines or gaining or maintaining market exposure, as applicable, to the extent that there is an imperfect correlation between the price movements of the options and futures contracts and those of the securities to be hedged. In addition, if a Portfolio Manager's prediction on stock market movements is inaccurate, All-Star may be worse off than if it had not engaged in such options or futures transactions.

See the Statement of Additional Information for additional information concerning options and futures transactions and the risk thereof.

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### Risks

As an investment company that holds common stocks, All-Star's portfolio is subject to the possibility that common stock prices will decline over short or even extended periods. All-Star may remain substantially fully invested during periods when stock prices generally rise and also during periods when they generally decline. In addition, All-Star's portfolio is subject to the risks associated with growth stocks. Growth stock prices may be more sensitive to changes in current or expected earnings than the prices of other stocks, and growth stocks may not perform as well as value stocks or the stock market in general. Risks are inherent in investments in equities, and Fund shareholders should be able to tolerate significant fluctuations in the value of their investment in All-Star. All-Star is intended to be a long-term investment vehicle and is not designed to provide investors with a means of speculating on short-term stock market movements. Investors should not consider the Fund a complete investment program.

In addition to the foregoing investment risks, shares of closed-end investment companies such as All-Star are not redeemable and frequently trade at a discount from their net asset value. This risk is separate and distinct from the risk that All-Star's net asset value may decline. See "Share Price Data" for information about the market price and net asset value of All-Star's Shares since January 1, 2000.

### Reducing Investment Risk

As a matter of fundamental policy, All-Star will not (i), as to 75% of its total assets, purchase the securities (other than U.S. Government Securities) of any one issuer if after such purchase more than 5% of its assets would be invested in the securities of that issuer, (ii) purchase more than 10% of the outstanding voting securities of such issuer, (iii) invest 25% more of its total assets in the securities of issuers in the same industry, or (iv) invest more than 10% of its total assets in securities that at the time of purchase have legal or contractual restrictions on resale (including unregistered securities that are eligible for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933). See "Investment Restrictions" in the Statement of Additional Information.

### MANAGEMENT OF ALL-STAR

The management of All-Star's business and affairs is the responsibility of its Board of Trustees.

All-Star has a Fund Management Agreement with LAMCO pursuant to which LAMCO provides the Portfolio Manager selection, evaluation, monitoring and rebalancing services ("investment management services") described above under "The Multi-Manager Concept." No single individual at LAMCO is responsible for LAMCO's decisions with respect to the retention or replacement of the Portfolio Managers.

LAMCO is also responsible for the provision of administrative services to All-Star, including the provision of office space, shareholder and broker-dealer communications, compensation of officers of All-Star who are officers or employees of LAMCO or its affiliates, and the supervision of transfer agency, dividend disbursing, custodial and other services provided to others. Certain of LAMCO's administrative responsibilities have been delegated to Colonial.

LAMCO has its offices at One Financial Center, Boston, Massachusetts 02211. LAMCO was organized in 1985 and is an indirect wholly owned subsidiary of Columbia Management Group, Inc., which in turn is an indirect majority owned subsidiary of FleetBoston Financial Corporation, a U.S. financial holding company.

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Under All-Star's Portfolio Management Agreements with each of its Portfolio Managers and LAMCO, each Portfolio Manager has discretionary authority (including for the selection of brokers and dealers for the execution of All-Star's portfolio transactions) with respect to the portion of All-Star's assets allocated to it by LAMCO from time to time, subject to All-Star's investment objective and policies, to the supervision and control of the Trustees, and to instructions from LAMCO. As described under the section entitled "The Multi-Manager Concept", LAMCO from time to time reallocates All-Star's portfolio assets in order to maintain an approximately equal allocation of them among the Portfolio Managers and to preserve an approximately equal weighting among the different investment styles practiced by the Portfolio Managers. Although the Portfolio Managers' activities are subject to general oversight by LAMCO and the Trustees and officers of All-Star, neither LAMCO nor such Trustees and officers evaluate the investment merits of the Portfolio Managers' selections of individual securities. See Appendix A for a description of the Portfolio Managers.

Although All-Star does not permit a Portfolio Manager to act or have a broker-dealer affiliate act as broker for Fund portfolio transactions initiated by it, All-Star's Portfolio Managers are permitted to place portfolio transactions initiated by them with another Portfolio Manager or its broker-dealer affiliate for execution on an agency basis, provided the commission does not exceed the usual and customary broker's commission being paid to other brokers for comparable transactions and is otherwise in accordance with All-Star's procedures adopted under Rule 17e-1 under the 1940 Act.

Under All-Star's Fund Management Agreement with LAMCO and its Portfolio Management Agreements with the Portfolio Managers, All-Star pays LAMCO a fund management fee and an administrative fee, and LAMCO in turn pays the fees of the Portfolio Managers from the fund management fees paid to it. The annual fees that are paid under the current agreements are shown below (fees are payable quarterly based on the indicated percentage of the Fund's average weekly net assets during the prior quarter).

	Fund Management Fee Paid to LAMCO and Portfolio Management Fee Paid to Portfolio Managers	Administrati Fee Paid to
Average weekly Net Asset Value		
First \$400 million	0.800% (0.400% to Portfolio Managers)	0.200%
Next \$400 million	0.720% (0.360% to Portfolio Managers)	0.180%
Next \$400 million	0.648% (0.324% to Portfolio Managers)	0.162%
Over \$1.2 billion	0.584% (0.292% to Portfolio Managers)	0.146%

Colonial provides pricing and bookkeeping services to All-Star for an annual fee of \$10,000 per year plus a fee based on the Fund's average net assets for any month that such assets are over \$50 million. The fee shall be calculated as follows: \$190,000 divided by the sum of the Fund's average monthly net assets plus the average monthly net assets of Liberty All-Star Growth Fund, Inc. The Fund also reimburses Colonial for its out-of-pocket expenses, including fees payable to third parties for pricing services.

Custodian and Transfer Agent

State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts

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02110, is All-Star's custodian. EquiServe Trust Company, N.A., 150 Royall Street, Canton, Massachusetts 02021, is the transfer and dividend disbursing agent and registrar for All-Star.

### Expenses of the Fund

LAMCO provides the Portfolio Manager selection, evaluation, monitoring and rebalancing services and assumes responsibility for the administrative services described above, pays the compensation of and furnishes office space for the officers of All-Star who are affiliated with LAMCO, and pays the management fees of the Portfolio Managers. All-Star pays all its expenses, other than those expressly assumed by LAMCO. The expenses payable by All-Star include: management and administrative fees payable to LAMCO; pricing and bookkeeping fees payable to Colonial; fees and expenses of independent auditors; fees for transfer agent and registrar, dividend disbursing, custodian and portfolio recordkeeping services; expenses in connection with the Automatic Dividend Reinvestment and Cash Purchase Plan; expenses in connection with obtaining quotations for calculating the value of All-Star's net assets; taxes (if any) and the preparation of All-Star's tax returns; brokerage fees and commissions; interest; costs of Trustee and Shareholder meetings (including expenses of printing and mailing proxy material therefor); expenses of printing and mailing reports to shareholders; fees for filing reports with regulatory bodies and the maintenance of All-Star's existence; membership dues for investment company industry trade associations; legal fees; stock exchange listing fees and expenses; fees to federal and state authorities for the registration of Shares; fees and expenses of Trustees who are not trustees, officers, employees or stockholders of LAMCO or its affiliates; insurance and fidelity bond premiums; and any extraordinary expenses of a non-recurring nature.

### DESCRIPTION OF SHARES

#### General

All-Star's authorized capitalization consists of an unlimited number of Shares of beneficial interest, without par value, of which [ ] Shares were issued and outstanding on the date of this Prospectus. The currently outstanding Shares are, and the Shares offered hereby when issued and paid for pursuant to the terms of the Offer will be, fully paid and non-assessable. Shareholders would be entitled to share pro rata in the net assets of All-Star available for distribution to Shareholders upon liquidation of All-Star.

Shareholders are entitled to one vote for each Share held. All-Star's Shares do not have cumulative voting rights, which means that the holders of more than 50% of the Shares of All-Star voting for the election of Trustees can elect all the Trustees standing for election, and, in such event, the holders of the remaining Shares will not be able to elect any of such Trustees.

#### Repurchase of Shares

All-Star is a closed-end investment company and as such its Shareholders do not have the right to cause All-Star to redeem their All-Star Shares. All-Star, however, is authorized to repurchase its Shares on the open market when its Shares are trading at a discount from their net asset value. All-Star has no current plans to repurchase its Shares.

#### Anti-takeover Provisions of the Declaration of Trust; Super-majority Vote Requirement for Conversion to Open-End Status

All-Star's Declaration of Trust contains provisions (commonly referred to as "antitakeover" provisions) which are intended to have the effect of limiting the ability of other entities or persons to acquire control of All-Star, to cause it to engage in certain transactions, or to modify its structure. The Board of

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Trustees is divided into three classes, each having a term of three years. On the date of the annual meeting of shareholders in each year the term of one class expires. This provision could delay for up to three years the replacement of a majority of the Board of Trustees. The affirmative vote of 75% of the Shares will be required to authorize All-Star's conversion from a closed-end to an open-end investment company, unless such conversion is recommended by All-Star's Board of Trustees, in which event such conversion would only require the majority vote of All-Star's Shareholders (as defined under "Investment Objective, Policies and Risks" above).

In addition, the affirmative vote of the holders of 75% of the Shares of the Fund will be required generally to authorize any of the following transactions:

- (i) All-Star's merger or consolidation with or into any other corporation;
- (ii) the issuance of any securities of All-Star to any person or entity for cash;
- (iii) the sale, lease or exchange of all or any substantial part of All-Star's assets to any entity or person (except assets having an aggregate fair market value of less than \$1,000,000); or
- (iv) the sale, lease or exchange to All-Star, in exchange for securities of All-Star, of any assets of any entity or person (except assets having an aggregate fair market value of less than \$1,000,000);

if such corporation, person or entity is directly, or indirectly through affiliates, the beneficial owner of five percent or more of the outstanding Shares of All-Star. (A 66 2/3% vote would otherwise be required for a merger or consolidation or a sale, lease or exchange of all or substantially all of All-Star's assets unless recommended by the Trustees, in which case only a majority vote would be required). However, such 75% vote will not be required with respect to the transactions listed in (i) through (iv) above where the Board of Trustees under certain conditions approves the transaction. However, depending upon the transaction, a different Shareholder vote may nevertheless be required under Massachusetts law.

The foregoing super-majority vote requirements may not be amended except with a similar supermajority vote of the Shareholders.

These provisions will make more difficult a change in All-Star's structure or management or consummation of the foregoing transactions without the Trustees' approval. The anti-takeover provisions could have the effect of depriving Shareholders of an opportunity to sell their Shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of All-Star in a tender offer or similar transaction. However, the Board of Trustees continues to believe that the anti-takeover provisions are in the best interests of All-Star and its Shareholders because they provide the advantage of potentially requiring persons seeking control of All-Star to negotiate with its management regarding the price to be paid and facilitating the continuity of All-Star's management and its continuing application of the multi-manager concept.

The Board also believes that the super-majority vote requirement for conversion to an open-end investment company is in the best interest of All-Star and its shareholders because it will allow All-Star to continue to benefit from the advantages of its closed-end structure until such time that, based on relevant factors including the then current relationship of the market price of All-Star's Shares to their net asset value, the Board determines to recommend to Shareholders All-Star's conversion to an open-end investment company.

In accordance with the Declaration of Trust, the question of conversion to an

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open-end investment company was submitted to the vote of Shareholders at All-Star's 1993 annual meeting held on April 6, 1993, such conversion then requiring only the affirmative vote of a majority of All-Star's Shares (as defined in the 1940 Act). In accordance with the Trustees' recommendation, Shareholders, by substantial majorities, rejected the conversion proposal and approved an amendment to All-Star's Declaration of Trust instituting the 75% super-majority vote referred to above for any future conversion to open-end status.

### DISTRIBUTIONS; AUTOMATIC DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

#### 10% Distribution Policy

All-Star's current distribution policy is to pay distributions on its Shares totaling approximately 10% of its net asset value per year, payable in four quarterly distributions of 2.5% of its net asset value at the close of the NYSE on the Friday prior to each quarterly declaration date. These fixed distributions, which are not related to All-Star's net investment income or net realized capital gains or losses, will be treated as ordinary dividend income up to the amount of All-Star's current and accumulated earnings and profits. If, for any calendar year, the total distributions made under the 10% pay-out policy exceed All-Star's net investment income and net realized capital gains, the excess will be treated as a tax-free return of capital to each Shareholder (up to the amount of the shareholder's basis in his or her Shares) and thereafter as gain from the sale of Shares. The amount treated as a tax-free return of capital will reduce the shareholder's adjusted basis in his or her Shares, thereby increasing his or her potential gain or reducing his or her potential loss on the subsequent sale of his or her Shares. All-Star made distribution from capital in 1987, 1988, 1989, 1990, 1992, 1993 and 1994 (See "Financial Highlights").

To the extent All-Star's 10% payout policy results in distributions in excess of its net investment income and net realized capital gains, such distributions will decrease its total assets and increase its expense ratio to a greater extent than would have been the case without the 10% payout policy. In addition, in order to make distributions under the 10% payout policy, All-Star may have to sell portfolio securities at times when the particular investment styles of its Portfolio Managers would dictate not doing so.

All-Star may, in the discretion of the Board of Trustees, retain for reinvestment, and not distribute, net capital gain for any year to the extent that its net investment income and net realized gains exceed the minimum amount required to be distributed for such year under the 10% pay-out policy, although All-Star reserves the right to distribute such excess. Retained net capital gain will be taxed to both All-Star and the Shareholders as long-term capital gains; however, each shareholder will be able to claim a proportionate share of the federal income tax paid by All-Star as a credit against his or her own federal income tax liability and will be entitled to increase the adjusted tax basis in his or her Shares by the difference between the amount taxed and the credit.

All-Star may pay all or a substantial portion of its distributions in each year in the form of newly issued Shares (plus cash in lieu of any fractional Shares that would otherwise be issuable) to all shareholders except those non-participants in the Plan who specifically elect to receive their distribution in cash by completing and signing an option card, a copy of which will be enclosed with the notice of each such distribution payable in Shares, and returning it on a timely basis to EquiServe Trust Company, N.A., All-Star's transfer agent and dividend paying agent.

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The number of Shares to be issued to a Shareholder in payment of a distribution declared payable in Shares will be determined by dividing the total dollar amount of the distribution by the lower of the market value or the net asset value per Share on the valuation date for the distribution (but not at a discount of more than 5% from the market value). Market value per Share for this purpose will be the last sales price on the NYSE on the valuation date or, if there are no sales on that day, the mean between the closing bid and closing asked quotations for that date.

### Automatic Dividend Reinvestment and Cash Purchase Plan

Under All-Star's Automatic Dividend Reinvestment and Cash Purchase Plan (the "Plan"), shareholders whose shares are registered in their own name may elect to participate in the Plan and have all distributions automatically reinvested by EquiServe Trust Company, as agent for participants in the Plan (the "Plan Agent"), in additional Shares of All-Star. Shareholders who do not elect to participate in the Plan will receive all distributions (other than those declared payable in Shares as described above) in cash.

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 the market value or the net asset value per Share on the valuation date for the distribution (but not a discount of more than 5% from the market value). Distributions declared payable in cash will be reinvested for the accounts of participants in the Plan in additional Shares purchased by the Plan Agent on the open market, on the NYSE or elsewhere at prevailing market prices (if the Fund's Shares are trading at a discount to their net asset value) or in newly issued Shares (if the Fund's Shares are trading at or above their net asset value). Dividends and distributions are subject to taxation, whether received in cash or in Shares (see "Tax Status" below).

Participants in the Plan have the option of making additional cash payments in any amount [from \$100 to \$3,000] on a monthly basis for investment in All-Star Shares purchased on the open market. These voluntary cash payments will be invested on or about 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 ten business days before the next investment date. Barring suspension of trading, voluntary cash payments will be invested within [30] 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.

In the case of Shareholders such as banks, brokers or nominees that hold Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Shares certified from time to time by the record shareholder as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who participant in the Plan.

There is no charge to participants for reinvesting distributions payable in either Shares or cash. The Plan Agent's fees for handling the reinvestment of such distributions are paid by All-Star. There are no brokerage charges with respect to Shares issued directly by All-Star as a result of distributions 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



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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.

The automatic reinvestment of dividends and other distributions will not relieve plan participants of any income tax that may be payable thereon. See "Tax Status" below.

A participant may elect to withdraw from the Plan at any time by notifying the Plan Agent in writing. There will be no penalty for withdrawal from the Plan, and shareholders who have previously withdrawn from the Plan may rejoin it at any time. A withdrawal will only be effective for subsequent distributions with a record date at least ten days after the notice of withdrawal is received by the Plan Agent.

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

Shareholders must affirmatively elect to participate in the Plan, and may do so by completing an application and filing it with the Plan Agent. Shareholders may call or write the Plan Agent, EquiServe Trust Company, P.O. Box 8200, Boston, Massachusetts 02266-8200 (800-542-3863) for information about the Plan.

Shareholders whose All-Star Shares are held of record in "street name" by broker-dealer firms or banks may not be able to participate in the Plan, and such Shareholders who are participating in the Plan may not be able to transfer their Shares to another broker-dealer or bank and continue to participate in the Plan.

A Shareholder may elect to withdraw from the Plan at any time by notifying the Plan Agent in writing. There will be no penalty for withdrawal from the Plan and Shareholders who have previously withdrawn from the Plan may rejoin it at any time. A withdrawal will only be effective for subsequent distributions with a record date at least ten days after the notice of withdrawal is received by the Plan Agent.

### TAX STATUS

The following discussion briefly summarizes the general rules applicable to taxation of All-Star and its shareholders. Shareholders are urged to consult with their own tax advisers concerning the tax consequences of their continued investment in All-Star and of their receipt and exercise of the Rights.

All-Star has elected to be, and intends to continue to qualify each year for federal income tax treatment as a regulated investment company under the Code, and intends to make distributions to the Shareholders in accordance with the timing requirements set out in the Code. As a result, it is expected that All-Star will be relieved of federal income tax on its net investment income and net realized capital gains to the extent it distributes them to its Shareholders. (See "Distributions; Automatic Dividend Reinvestment and Cash Purchase Plan--10% Distribution Policy" regarding All-Star's authority to retain and pay taxes on, and not distribute, net capital gain). All-Star also expects to make sufficient annual distributions to avoid being subject to a nondeductible 4% federal excise tax imposed on regulated investment companies. If All-Star fails to qualify as a regulated investment company in any year, it

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would incur federal corporate income tax on its taxable income and its distributions would be taxable as ordinary dividend income to the Shareholders to the extent of its net investment income and net capital gain. In addition, All-Star could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying for treatment as a regulated investment company.

Distributions by All-Star from net investment income and net realized capital gains are subject to taxation whether received by shareholders in cash or in Shares of All-Star. Shareholders receiving a dividend or other distribution in the form of newly issued Shares will be treated for federal income tax purposes as receiving a distribution in an amount equal to the fair market value, determined as of the distribution date, of the Shares received. Such Shareholders will have a cost basis in each newly issued Share equal to the fair market value of a Share of All-Star on the distribution date. Distributions are generally taken into account for tax purposes when paid, except that distributions paid in January but declared in the last quarter of the preceding calendar year must be taken into account as if paid on December 31 of such preceding calendar year. A portion of All-Star's net investment income paid to corporate shareholders that is attributable to dividends from domestic corporations may be eligible for the 70% dividends-received deduction available to corporations. Availability of the deduction for particular corporate shareholders is subject to certain limitations, and deducted amounts may be subject to the alternative minimum tax or result in certain basis adjustments. Distributions from net capital gain are taxable as long-term capital gains, regardless of how long the Shareholder has held the Shares, and are not eligible for the dividends-received deduction. Net capital gain is taxable, in the case of a noncorporate shareholder, at a maximum rate of 20% if attributable to the disposition of Shares that the shareholder held for more than twelve months.

If a shareholder holds Shares of All-Star for six months or less, any loss on the sale of the Shares will be treated as a long-term capital loss to the extent of any amount reportable by the Shareholder as long-term capital gain with respect to such Shares. Any loss realized on a disposition of Shares may also be disallowed under rules relating to wash sales.

At the time of an investor's purchase of All-Star Shares, All-Star's net asset value may reflect undistributed net investment income or capital gains or net unrealized appreciation of securities it holds. As of December 31, 2001, All-Star's investments had net unrealized gains of \$98,462,182. Realization and a subsequent distribution to a shareholder of such amount, although it may in effect constitute a return of his or her investment, would be taxable to the shareholder as ordinary income or capital gain, as described above. For federal income tax purposes, All-Star is permitted to carry forward to another taxable year its net realized capital losses, if any, from earlier taxable years and thus may realize net capital gains in the later year up to the amount of such losses without being required to pay taxes on or to distribute such gains. As of December 31, 2001, the end of its last completed fiscal year, All-Star had no capital loss carryovers.

Individuals and certain other non-corporate All-Star Shareholders may be subject to 30.5% withholding on reportable dividends and capital gain distributions ("back-up withholding"). Generally, Shareholders subject to back-up withholding will be those for whom a taxpayer identification number and certain required certi