LIBERTY ALL STAR GROWTH FUND INC.
Form N-CSR
March 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-04537

Liberty All-Star Growth Fund, Inc.

(Exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado 80203

(Address of principal executive offices) (Zip code)

Alex Marks

ALPS Fund Services, Inc.

1290 Broadway, Suite 1100

Denver, Colorado 80203

(Name and address of agent for service)

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

Date of fiscal year end: December 31

Date of reporting period: January 1 - December 31, 2014

Item 1. Reports to Stockholders.

PRESIDENT S LETTER (UNAUDITED)

Fellow Shareholders: *February 2015*

Although roiled by periodic sell-offs, U.S. equity markets rose once again in 2014, as the S&P 500® Index and the widely followed Dow Jones Industrial Average (DJIA) posted numerous record highs throughout the year. The S&P 500 returned 13.69 percent while the DJIA gained 10.04 percent. The technology-focused NASDAQ Composite Index returned 14.75 percent.

Among key growth benchmarks, the Russell 3000® Growth Index returned 12.44 percent for the year. Among market capitalization indices, the Russell 1000® Growth Index (large cap) returned 13.05 percent while the Russell Midcap® Growth Index rose 11.90 percent. Small cap stocks, as represented by the Russell 2000® Growth Index, returned 5.60 percent.

The U.S. economy was the main source of strength for equities in 2014. An abnormally harsh winter caused gross domestic product (GDP) to decline 2.1 percent in the first quarter. Growth was strong in the second and third quarters, however, when GDP rose 4.6 percent and 5.0 percent, respectively. The employment picture in the U.S. also brightened. Except for January, which was distorted by the weather, every month in 2014 was marked by the creation of more than 200,000 non-farm jobs. The ongoing job growth meant that by May all of the 8.7 million jobs lost during the Great Recession had finally been recouped. Throughout the fiscal year, the Federal Reserve kept short-term interest rates at record low levels, even as it continued to wind down its program of quantitative easing (QE), first launched in December 2008. In October, the Fed ended the program altogether. Another powerful theme running throughout the year was the industrial renaissance in the U.S., as auto, capital equipment and energy output gained strength. U.S. energy production stood out as a growth driver, as hydraulic fracturing methodologies unlocked previously inaccessible or economically impractical oil and gas deposits. The price of oil began a gradual descent at mid-year, a move that accelerated in the fourth quarter. From a peak of $106 per barrel in June, the price of West Texas Intermediate (WTI) crude fell to an average of $59 per barrel in December (and continued to slide in early 2015).

The steep, rapid decline in the price of oil was interpreted by many to be a sign of slowing economic growth worldwide and investors responded by selling equities in one of the several sell-offs that made 2014 a positive, but choppy year. Fears of higher interest rates and geopolitical tensions, chiefly in Ukraine, fueled a retrenchment in the first quarter. A significant sell-off in biotechnology, information technology and social networking stocks hit the NASDAQ Composite in April. And falling oil prices led to a one-week decline of 3.1 percent in the S&P 500 in early October.

One characteristic of the 2014 investment environment that warrants comment was how challenging it was for active managers and actively managed funds. According to data provider Lipper, 2014 was the worst year for active managers relative to the market in three decades, while data from research firm Morningstar indicates that less than 20 percent of U.S. equity fund managers beat their benchmark. As Liberty All-Star® Growth Fund is actively managed, we asked the Fund s three investment managers to comment on this in our annual Manager Roundtable, which begins on page 7 of this report. We recommend their thoughts and insights to you.

Liberty All-Star® Growth Fund

After delivering absolute and relative returns that were higher than all relevant benchmarks in 2013, Liberty All-Star® Growth Fund disappointed in 2014. The Fund returned 2.43 percent with shares valued at net asset value (NAV) with dividends reinvested and -2.32 percent with shares valued at market price with dividends reinvested. (Fund returns are net of fees.) The Lipper Multi-Cap Growth Mutual Fund Average returned 9.10 percent. The Fund s performance was hindered by a sell-off that resulted in a negative return in the third quarter; small- and mid-cap stocks, which comprise two-thirds of the Fund s assets, were hit particularly hard during that period. The Russell 2000® Index was actually down 4.41 percent through the third quarter and managed a positive return for the year only because of a strong fourth quarter. The discount at which Fund shares traded relative to their underlying NAV narrowed compared with 2013, ranging from a 0.4 percent premium to a discount of -9.8 percent.

Fund distributions totaled $0.33 per share in 2014. The Fund s distribution policy has been in place since 1997 and is a major component of the Fund s total return. Since 1997, the Fund has paid distributions totaling $11.88 per share, and we continue to emphasize that shareholders should include these distributions when determining the return on their investment in the Fund.

One of the key principles on which the Fund was founded is multi-management, or the practice of allocating the Fund s assets to carefully selected growth style managers investing across the capitalization spectrum of large-, mid- and small-cap growth stocks. Thus, we are once again offering insights into the managers thinking through the previously mentioned roundtable discussion, and invite shareholders to read the managers comments.

In a difficult environment for active managers, the Fund disappointed in 2014. After a strong 2013, however, Fund market price returns over the past two years average 20.16 percent, while three-year trailing returns average 18.00 percent and five-year returns average 16.20 percent. If the start of the year is any indicator, 2015 may be highly volatile. We are confident in the Fund s three investment managers ability to navigate whatever market conditions prevail in the year ahead. For our part, we will continue to manage the Fund with our sights set on rewarding long-term returns for shareholders.

Sincerely,

William R. Parmentier, Jr.

President and Chief Executive Officer

Liberty All-Star® Growth Fund, Inc.

FUND STATISTICS AND SHORT-TERM PERFORMANCE

PERIODS ENDED DECEMBER 31, 2014

FUND STATISTICS:

Net Asset Value (NAV)	$5.69	
Market Price	$5.16	
Discount	-9.3%	

	Quarter	2014
Distributions*	$0.08	$0.33
Market Price Trading Range	$4.51 to $5.24	$4.51 to $6.28
Premium/(Discount) Range	-6.7% to -9.8%	0.4% to -9.8%
PERFORMANCE:		
Shares Valued at NAV with Dividends Reinvested	5.48%	2.43%
Shares Valued at Market Price with Dividends Reinvested	2.78%	-2.32%
Dow Jones Industrial Average	5.20%	10.04%
Lipper Multi-Cap Growth Mutual Fund Average	4.43%	9.10%
NASDAQ Composite Index	5.70%	14.75%
Russell 3000® Growth Index	5.17%	12.44%
S&P 500® Index	4.93%	13.69%

LONG-TERM PERFORMANCE SUMMARY AND DISTRIBUTIONS	ANNUALIZED RATES OF RETURN			
PERIODS ENDED DECEMBER 31, 2014	3 YEARS	5 YEARS	10 YEARS	INCEPTION**
LIBERTY ALL-STAR® GROWTH FUND, INC.				
Distributions	$0.91	$1.43	$3.92	$7.74
Shares Valued at NAV with Dividends Reinvested	17.64%	14.43%	7.59%	3.13%
Shares Valued at Market Price with Dividends Reinvested	18.00%	16.20%	6.01%	4.26%
Dow Jones Industrial Average	16.29%	14.22%	7.91%	6.03%
Lipper Multi-Cap Growth Mutual Fund Average	19.34%	14.57%	7.94%	3.19%
NASDAQ Composite Index	23.60%	17.19%	9.17%	2.22%
Russell 3000® Growth Index	20.25%	15.89%	8.50%	2.30%

S&P 500® Index	20.41%	15.45%	7.67%	4.39%

* All 2014 distributions consist of ordinary dividends and long-term capital gains. A breakdown of each 2014 distribution for federal income tax purposes can be found in the table on page 33.

** Since restructuring to a multi-cap growth fund on May 1, 2000.

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

Figures shown for the Lipper Multi-Cap Growth Mutual Fund Average are based on open-end mutual funds total returns, which include dividends, and are net of Fund expenses. Figures shown for the unmanaged Dow Jones Industrial Average, NASDAQ Composite Index, the Russell 3000® Growth Index and the S&P 500® Index are total returns, including dividends. A description of the Lipper benchmark and the market indices can be found on page 42.

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

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

UNIQUE FUND ATTRIBUTES (UNAUDITED)

Unique Attributes of Liberty All-Star® Growth Fund

Several attributes help to make the Fund a core equity holding for investors seeking a diversified growth portfolio, income and the potential for long-term appreciation.

Multi-management for Individual Investors

Large institutional investors have traditionally employed multiple investment managers. With three investment managers investing across the full capitalization range of growth stocks, the Fund brings multi-management to individual investors.

Real-time Trading and Liquidity

The Fund has a fixed number of shares that trade on the New York Stock Exchange and other exchanges. Share pricing is continuous not just end-of-day, as it is with open-end mutual funds. In addition, Fund shares offer immediate liquidity and there are no annual sales fees.

UNIQUE FUND ATTRIBUTES (UNAUDITED)

Access to Institutional Managers

The Fund s investment managers invest primarily for pension funds, endowments, foundations and other institutions. Because institutional managers are closely monitored by their clients, they tend to be more disciplined and consistent in their investment process.

Monitoring and Rebalancing

ALPS Advisors continuously monitors these investment managers to ensure that they are performing as expected and adhering to their style and strategy, and will replace the managers when warranted. Periodic rebalancing maintains the Fund s structural integrity and is a well-recognized investment discipline.

Alignment and Objectivity

Alignment with shareholders best interests and objective decision-making help to ensure that the Fund is managed openly and equitably. In addition, the Fund is governed by a Board of Directors that is elected by and responsible to shareholders.

Distribution Policy

Since 1997, the Fund has followed a policy of paying annual distributions on its shares at a rate that approximates historical equity market returns. The current annual distribution rate is 6 percent of the Fund s net asset value (paid quarterly at 1.5 percent per quarter), providing a systematic mechanism for distributing funds to shareholders.

THE FUND S THREE GROWTH INVESTMENT MANAGERS AND THE MARKET CAPITALIZATION ON WHICH EACH FOCUSES:

MANAGERS DIFFERING INVESTMENT STRATEGIES ARE REFLECTED IN PORTFOLIO CHARACTERISTICS

The portfolio characteristics table below is a regular feature of the Fund s shareholder reports. It serves as a useful tool for understanding the value of the Fund s multi-managed portfolio. The characteristics are different for each of the Fund s three investment managers. These differences are a reflection of the fact that each has a different capitalization focus and investment strategy. The shaded column highlights the characteristics of the Fund as a whole, while the first three columns show portfolio characteristics for the Russell Smallcap, Midcap and Largecap Growth indices. See page 42 for a description of these indices.

MARKET CAPITALIZATION SPECTRUM

SMALL **LARGE**

PORTFOLIO CHARACTERISTICS
AS OF DECEMBER 31, 2014

	RUSSELL GROWTH: Smallcap Index	Midcap Index	Largecap Index	Weatherbie	TCW	Sustainable	Total Fund
Number of Holdings	1205	552	682	56	49	30	130*
Weighted Average Market Capitalization (billions)	$2.1	$13.7	$119.3	$2.8	$10.9	$78.4	$31.7
Average Five-Year Earnings Per Share Growth	17%	22%	20%	21%	29%	16%	21%
Average Five-Year Sales Per Share Growth	11%	12%	14%	15%	15%	14%	14%
Price/Earnings Ratio**	27x	25x	21x	26x	28x	27x	27x

Price/Book Value Ratio	4.1x	4.8x	5.1x	3.8x	5.5x	4.6x	4.5x

* Certain holdings are held by more than one manager.
** Excludes negative earnings.

Manager Roundtable

As 2014 ended and 2015 began, equity markets reflected investors concerns that economic growth was slowing around the world, and may reach the shores of the major economy that is growing that of the U.S. Potentially confirming their worries were plunging oil prices, brought on by a combination of slack demand and plentiful supply. The Fund s managers assess various risk factors, but see opportunities in select companies with the ability to generate growth, even in a mixed economic environment. And periodic bouts of volatility often afford them the opportunity to invest in these companies at attractive valuations.

Liberty All-Star® Growth Fund s investment managers have long experience, in-depth knowledge, a proven track record and a firm commitment to growth style investing. Once again, therefore, we are grateful to be able to call upon this resource to provide Fund shareholders with timely commentary and insight. The Fund s Investment Advisor, ALPS Advisors, serves as moderator of the roundtable. Participating investment management firms, the portfolio manager for each and their respective capitalization ranges are:

WEATHERBIE CAPITAL, LLC

Portfolio Manager/Matthew A. Weatherbie, CFA

President and Founder

Capitalization Focus/Small-Cap Growth Weatherbie practices a small capitalization growth investment style focusing on high quality companies that demonstrate superior earnings growth prospects, yet are reasonably priced relative to their intrinsic value. The firm seeks to provide superior returns relative to small capitalization growth indices over a full market cycle.

TCW INVESTMENT MANAGEMENT COMPANY

Co-Portfolio Managers/Chang Lee and Mike Olson, CFA

Managing Directors

Capitalization Focus/Mid-Cap Growth TCW seeks capital appreciation through investment in the securities of rapidly growing companies whose business prospects, in TCW s view, are not properly perceived by consensus research.

SUSTAINABLE GROWTH ADVISERS, LP

Portfolio Manager/George Fraise

Founding Principal

Capitalization Focus/Large-Cap Growth SGA focuses on companies that have unique characteristics that lead to a high degree of predictability, strong profitability and above-average earnings and cash flow growth over the long term.

There can be several interpretations of the volatility that hit equity markets in the fourth quarter: Sell-offs in late September/early October principally taken down by economically sensitive sectors and in December with the further collapse in world oil prices and its implications for slower growth around the world. But strong rallies followed both pull-backs. Based on your strategy and capitalization

focus, what s your analysis of these scenarios and their implications for 2015? Matt Weatherbie, please start us off.

Weatherbie (Weatherbie Small-Cap Growth): First and foremost, Weatherbie Capital is a bottom-up fundamental research organization and we do not have a macro-driven investment process. The portfolio is built one stock at a time based on company-specific research. The portfolio is diversified across six growth sectors and, as it almost always is, the diversified business services category is the largest sector at a little less than 35 percent of our portfolio assets at year end. We have broad diversification guidelines, so the portfolio can t be overly concentrated in any one sector.

With that said, our investment team does have semi-annual macroeconomic meetings where we evaluate headwinds and tailwinds for companies held and under consideration. With respect to the collapse in world oil prices, as is the case in other sectors, we are looking for high quality growth companies that will do well over an entire cycle. Our stock selections are not made based on a macro call on oil and gas prices. Perhaps more importantly in the energy sector since it is cyclical and volatile we are looking for names that have little to no leverage such that they can survive a downturn like this and hopefully come out stronger than competitors when the dust settles.

Thank you. Let s continue up the capitalization range by getting TCW s mid-cap perspective and Sustainable Growth Advisers large-cap point of view.

Lee (TCW Mid-Cap Growth): We believe the scenarios reflect a decoupling of a resilient U.S. economy from the rest of the world as foreign economic growth continues to struggle. Heading into 2015, we expect another solid year in the U.S. as lower energy prices and a brighter job market mean higher disposable income for consumers, which should boost the economy. On the corporate side, excluding the energy sector, healthy corporate profits should allow companies to deploy excess capital. Overseas, however, risk should be to the downside as stagnant growth in Europe and Japan, as well as less robust growth in China, is driving downward spiraling commodity prices, particularly oil. Major global equity indices should remain volatile as investors flee to safer government bonds, resulting in continued near record low interest rates.

Fraise (Sustainable Large-Cap Growth): The realization that global growth expectations were too high, and concern that perhaps the situation was weaker than thought as reflected by the plunge in oil prices, resulted in the heightened volatility witnessed in late Q3 and Q4. Dramatic increases in stock prices and price/earnings (P/E) multiples in 2013 and 2014 discounted improving economic growth. With expectations for improving economic growth being challenged, stock prices reacted. We believe a long-term focus