

GENERAL AMERICAN INVESTORS CO INC
Form N-CSRS
August 01, 2014

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: 811-00041

GENERAL AMERICAN INVESTORS COMPANY, INC.

(Exact name of registrant as specified in charter)

100 Park Avenue, 35th Floor, New York, New York 10017

(Address of principal executive offices) (Zip code)

Eugene S. Stark

General American Investors Company, Inc.

100 Park Avenue

35th Floor

New York, New York 10017

(Name and address of agent for service)

Copy to:

John E. Baumgardner, Jr., Esq.

Sullivan & Cromwell LLP

125 Broad Street

New York, New York 10004

Registrant's telephone number, including area code: 212-916-8400

Date of fiscal year end: December 31

Date of reporting period: June 30, 2014

Item 1. Report to Shareholders

For the six months ended June 30, 2014, the net asset value per Common Share increased 5.8% while the investment return to our stockholders increased by 4.6%. By comparison, our benchmark, the Standard & Poor's 500 Stock Index (including income), increased 7.1%. For the twelve months ended June 30, 2014, the return on the net asset value per Common Share increased by 24.7%, and the return to our stockholders increased by 22.3%; these compare with an increase of 24.6% for the S&P 500. During both periods, the discount at which our shares traded continued to fluctuate and on June 30, 2014, it was 15.3%.

As detailed in the accompanying financial statements (unaudited), as of June 30, 2014, the net assets applicable to the Company's Common Stock were \$1,282,274,345 equal to \$43.45 per Common Share.

The increase in net assets resulting from operations for the six months ended June 30, 2014 was \$67,645,490. During this period, the net realized gain on investments sold was \$70,744,327 and the decrease in net unrealized appreciation was \$2,189,756. Net investment income for the six months was \$4,746,905 and distributions to Preferred Stockholders amounted to \$5,655,986.

During the six months, 426,303 shares of the Company's Common Stock were repurchased for \$14,840,891 at an average discount from net asset value of 14.6%.

Our annual report and first quarter letter highlighted the divergence in the rate of improvement in the real and the financial economies that has developed over the past several years. With particular emphasis on the last two calendar years, we observed much of the US equity market's gain is the result of price to earnings multiple expansion on modest earnings growth, reflecting the moderate economic recovery. It would seem likely that the multiple expansion observed during this period relates to persistently high operating margins and Federal Reserve induced low interest rates. Despite the Fed's tapering of Quantitative Easing through reduced bond purchases, short term interest rates hover near zero and long term US Treasury rates remain stable and near historic lows. Given that the real and financial economies are linked over

The economic expansion in the US has improved over the past year notwithstanding the poor first quarter GDP result of -2.9%. Unemployment is 6.1% compared to 7.5% a year ago. Auto sales over the trailing twelve months through June hit a recovery high of nearly 17 million units. Consumers are enjoying modestly higher wages and companies are spending more freely. Although households have not fully enjoyed the bounce in economic activity, recent data suggest dual income households are on the rise as are household formations, a crucial element to growth in housing and general consumption. It is hoped that some of the headwinds including fuel and medical costs together with geo-political concerns will dissipate over time.

Equity earnings multiples continue to be quite elevated for small capitalized equities and some select sectors. For large capitalized equities they remain moderately attractive and in the absence of more tangible evidence of accelerating inflation, it would appear that interest rates are likely to remain at historically low levels. We remain sanguine over the medium and long term for equities as they still represent a better alternative to fixed income securities.

We are saddened to report that Dr. Gerald M. Edelman, our esteemed colleague and director of the Company for thirty-eight years, died on May 17, 2014. Dr. Edelman shared the 1972 Nobel Prize in Physiology or Medicine for his work in deciphering the chemical structure of antibodies. In addition to his service on the Board and its Pension and Nominating Committees, Dr. Edelman also served as a Member and Professor of The Scripps Research Institute; Founder, Director and President of the Neurosciences Institute of the Neurosciences Research Foundation; Chairman of the Advisory Board of NGN Capital; and Chairman of the Scientific Advisory Board of Promosome, LLC. His counsel and support will be missed.

Information about the Company, including our investment objectives, operating policies and procedures, investment results, record of dividend and distribution payments, financial reports and press releases, is on our website and has been updated through June 30, 2014. It can be accessed on the internet at www.generalamericaninvestors.com.

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time, the relationship is mean reverting. Convergence can occur via significantly improved economic performance and/or modest multiple contraction. The low volatility present in the US equity markets suggests that investors believe in a favorable resolution.

By Order of the Board of Directors,
GENERAL AMERICAN INVESTORS COMPANY, INC.

Jeffrey W. Priest

President and Chief Executive Officer

July 23, 2014

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	Shares	COMMON STOCKS	Value (note 1a)
CONSUMER DISCRETIONARY (12.4%)	AUTOMOBILES AND COMPONENTS (1.9%)		
	1,264,063	Ford Motor Company	\$21,792,446
	30,000	Visteon Corporation (a)	2,910,300
			(Cost \$17,055,623)
			24,702,746
	CONSUMER SERVICES (2.0%)		
	284,170	Bob Evans Farms, Inc.	14,222,709
	750,000	International Game Technology	11,932,500
			(COST \$22,158,101)
			26,155,209
	RETAILING (8.5%)		
	284,050	Kohl's Corporation	14,963,754
	460,000	Target Corporation	26,657,000
1,244,668	The TJX Companies, Inc.	66,154,104	
		(Cost \$42,752,571)	
		(Cost \$81,966,295)	
		107,774,858	
		158,632,813	
CONSUMER STAPLES (13.6%)	FOOD, BEVERAGE AND TOBACCO (10.1%)		
	196,039	Danone (a)	14,561,044
	237,400	Diageo plc ADR	30,213,898
	450,000	Nestle S.A.	34,869,163
	195,000	PepsiCo, Inc.	17,421,300
	734,620	Unilever N.V.	32,146,369
			(Cost \$70,472,922)
			129,211,774
	FOOD AND STAPLES RETAILING (3.5%)		
	394,500	Costco Wholesale Corporation	45,430,620
		(Cost \$82,514,857)	
		174,642,394	
ENERGY (14.9%)	2,133,269	Alpha Natural Resources, Inc. (a)	7,914,428
	180,000	Anadarko Petroleum Corporation	19,704,600
	331,478	Apache Corporation	33,353,317
	1,050,615	Cameco Corporation	20,602,560
	248,100	Ensc0 plc - Class A	13,786,917
	620,000	Halliburton Company	44,026,200
	145,000	Occidental Petroleum Corporation	14,881,350
	803,803	Ultra Petroleum Corp. (a)	23,864,911
	550,000	Weatherford International plc (a)	12,650,000
			(Cost \$121,056,382)
		190,784,283	
FINANCIALS	BANKS (2.4%)		

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(22.3%)	795,000	FCB Financial Holdings, Inc., Class A (a) (b)	13,515,000
	75,000	FCB Financial Holdings, Inc., Class B (a) (c)	1,211,250
	125,000	M&T Bank Corporation	15,506,250
		(Cost \$17,662,263)	30,232,500
	DIVERSIFIED FINANCIALS (5.4%)		
	255,000	American Express Company	24,191,850
	400,000	JPMorgan Chase & Co.	23,048,000
	525,000	Nelnet, Inc.	21,750,750
		(Cost \$29,013,176)	68,990,600
	INSURANCE (14.5%)		
	293,492	Aon plc	26,440,694
	750,000	Arch Capital Group Ltd. (a)	43,080,000
	110	Berkshire Hathaway Inc. Class A (a)	20,889,055
	165,000	Everest Re Group, Ltd.	26,480,850
	365,000	MetLife, Inc.	20,279,400
	255,000	PartnerRe Ltd.	27,848,550
	335,000	Platinum Underwriters Holdings, Ltd.	21,724,750
		(Cost \$57,247,899)	186,743,299
		(Cost \$103,923,338)	285,966,399

		COMMON STOCKS (continued)	Value (note 1a)
	Shares		
HEALTH CARE	PHARMACEUTICALS, BIOTECHNOLOGY AND LIFE SCIENCES		
(8.5%)	1,200,000	Ariad Pharmaceuticals, Inc. (a)	\$7,644,000
	200,000	Celgene Corporation (a)	17,176,000
	428,600	Gilead Sciences, Inc. (a)	35,535,226
	61,369	Idenix Pharmaceuticals, Inc. (a)	1,478,993
	427,191	Merck & Co., Inc.	24,712,999
	755,808	Pfizer Inc.	22,432,381
		(Cost \$54,058,331)	108,979,599
INDUSTRIALS	CAPITAL GOODS (5.6%)		
(11.7%)	865,000	General Electric Company	22,732,200
	360,000	Owens Corning	13,924,800
	300,000	United Technologies Corporation	34,635,000
		(Cost \$52,172,995)	71,292,000
	COMMERCIAL AND PROFESSIONAL SERVICES (5.2%)		
	1,087,100	Republic Services, Inc.	41,277,187
	245,798	Towers Watson & Co. Class A	25,619,526
		(Cost \$31,349,168)	66,896,713
	TRANSPORTATION (0.9%)		
	422,500	Hertz Global Holdings, Inc. (a)	11,842,675
		(Cost \$10,094,478)	
		(Cost \$93,616,641)	150,031,388
INFORMATION TECHNOLOGY	SEMICONDUCTORS AND SEMICONDUCTOR EQUIPMENT (3.9%)		
(16.3%)	256,850	ASML Holding N.V.	23,956,400
	833,700	Intel Corporation	25,761,330
		(Cost \$24,319,428)	49,717,730
	SOFTWARE AND SERVICES (2.8%)		
	154,500	eBay Inc. (a)	7,734,270
	680,686	Microsoft Corporation	28,384,606
		(Cost \$25,305,863)	36,118,876
	TECHNOLOGY HARDWARE AND EQUIPMENT (9.6%)		
	469,000	Apple Inc.	43,584,170
	820,000	Cisco Systems, Inc.	20,377,000
	615,000	EMC Corporation	16,199,100
	536,200	QUALCOMM Incorporated	42,467,040
		(Cost \$67,575,284)	122,627,310
		(Cost \$117,200,575)	208,463,916
MATERIALS			
(1.3%)	336,300	The Dow Chemical Company	17,305,998
		(Cost \$10,566,260)	

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MISCELLANEOUS		Other (d)	(Cost \$37,011,931)	37,016,544
(2.9%)				
		TOTAL COMMON STOCKS		
		(103.9%)	(Cost \$701,914,610)	1,331,823,334
	Contracts			
	(100 shares			
	each)			
		PUT OPTION/EXPIRATION DATE/EXERCISE PRICE		
Energy (0.0%)	1,500	Weatherford International plc/January 17, 2015/\$20.00	(Cost \$233,010)	138,000

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Shares	SHORT-TERM SECURITY AND OTHER ASSETS	Value (note 1a)
	SSgA U.S. Treasury Money Market Fund	
143,711,541	(11.2%) (Cost \$143,711,541)	\$143,711,541
	TOTAL INVESTMENTS (e) (115.1%)	(Cost \$845,859,161)
	Liabilities in excess of receivables and other assets (-0.3%)	(3,281,355)
	PREFERRED STOCK (-14.8%)	(190,117,175)
	NET ASSETS APPLICABLE TO COMMON STOCK (100%)	\$1,282,274,345

ADR - American Depository Receipt (a) Non-income producing security.

(b) Level 3 fair value measurement, restricted security acquired in five installments as follows: 425,000 shares on 11/4/09, unit cost \$20.00 per share; 150,000 shares on 4/2/13, unit cost \$14.80 per share; 100,000 shares on 4/11/13, unit cost \$14.05 per share; 100,000 shares on 10/4/13, unit cost \$15.05 per share; and 20,000 shares on 10/14/13, unit cost \$15.00 per share. Fair value is \$17.00 per share, note 2. Fair value is based upon bid and/or transaction prices provided via the NASDAQ OMX PORTAL Alliance trading and transfer system for privately placed equity securities traded in the over-the-counter market among qualified investors and an evaluation of book value per share. Amount represents 1.05% of net assets.

(c) Level 3 fair value measurement, restricted security exchanged from Class A shares on 5/21/12, aggregate cost \$1,500,000, unit cost is \$20.00 per share and fair value is \$16.15 per share, note 2. Fair value is based upon a judgmentally discounted bid price provided via the NASDAQ OMX PORTAL

Alliance trading and transfer system for privately placed equity securities traded in the over-the-counter market among qualified investors and an evaluation of book value per share. Amount represents 0.09% of net assets.

(d) Securities which have been held for less than one year, not previously disclosed, and not restricted.

(e) At June 30, 2014 the cost of investments for Federal income tax purposes was the same as the cost for financial reporting purposes, aggregate gross unrealized appreciation was \$640,746,612, aggregate gross unrealized depreciation was \$10,932,899, and net unrealized appreciation was \$629,813,713.

STATEMENT OF OPTION WRITTEN June 30, 2014 (Unaudited)

	Contracts (100 shares each)	CALL OPTION/EXPIRATION DATE/EXERCISE PRICE	Value (note 1a)
Energy (0.0%)	1,500	Weatherford International plc/January 17, 2015/\$25.00 (Premium Received \$120,987)	\$210,000

(see notes to unaudited financial statements)

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	SHARES TRANSACTIONED	SHARES HELD
INCREASES		
NEW POSITIONS		
Bob Evans Farms, Inc.	15,000	284,170 (b)
eBay Inc.	—	154,500 (b)
Enesco plc -Class A	248,100	248,100 (b)
Hertz Global Holdings, Inc.	—	422,500 (b)
ADDITIONS		
Cameco Corporation	249,577	1,050,615
Danone	6,039	196,039
DECREASES		
ELIMINATION		
The ADT Corporation	117,500	—
REDUCTIONS		
Anadarko Petroleum Corporation	15,000	180,000
Aon Corporation	37,000	293,492
Halliburton Company	65,000	620,000
Idenix Pharmaceuticals, Inc.	797,610	61,369
PepsiCo, Inc.	25,000	195,000
QUALCOMM Incorporated	90,000	536,200
Visteon Corporation	98,141	30,000
Weatherford International plc	250,000	550,000

(a) Common shares unless otherwise noted; excludes transactions in Common Stocks - Miscellaneous - Other.

(b) Shares purchased in prior period and previously carried under Common Stocks - Miscellaneous - Other.

The diversification of the Company's net assets applicable to its Common Stock by industry group as of June 30, 2014 is shown in the following table.

INDUSTRY CATEGORY	COST(000)	VALUE(000)	PERCENT COMMON NET ASSETS*
Financials			
Banks	\$17,662	\$30,232	2.4%
Diversified Financials	29,013	68,991	5.4
Insurance	57,248	186,743	14.5
	103,923	285,966	22.3
Information Technology			
Semiconductors & Semiconductor			
Equipment	24,320	49,718	3.9
Software & Services	25,306	36,119	2.8
Technology Hardware & Equipment	67,575	122,627	9.6
	117,201	208,464	16.3

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Energy	121,289	190,922	14.9
Consumer Staples			
Food, Beverage & Tobacco	70,473	129,212	10.1
Food & Staples Retailing	12,042	45,431	3.5
Consumer Discretionary	82,515	174,643	13.6
Automobiles & Components	17,056	24,703	1.9
Consumer Services	22,158	26,155	2.0
Retailing	42,753	107,775	8.5
	81,967	158,633	12.4
Industrials			
Capital Goods	52,173	71,292	5.6
Commercial & Professional Services	31,349	66,897	5.2
Transportation	10,095	11,843	0.9
Health Care	93,617	150,032	11.7
Pharmaceuticals, Biotechnology & Life Sciences	54,058	108,979	8.5
Miscellaneous**	37,012	37,016	2.9
Materials	10,566	17,306	1.3
	702,148	1,331,961	103.9
Short-Term Securities	143,711	143,711	11.2
Total Investments	\$845,859	1,475,672	115.1
Other Assets and Liabilities - Net		(3,281)	(0.3)
Preferred Stock		(190,117)	(14.8)
Net Assets Applicable to Common Stock		\$1,282,274	100.0%

* Net Assets applicable to the Company's Common Stock.

** Securities which have been held for less than one year, not previously disclosed, and not restricted.

(see notes to unaudited financial statements)

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ASSETS

INVESTMENTS, AT VALUE (NOTE 1a)

Common stocks (cost \$701,914,610)		\$1,331,823,334
Purchased option (cost \$233,010)		138,000
Money market fund (cost \$143,711,541)		143,711,541
Total investments (cost \$845,859,161)		1,475,672,875

RECEIVABLES AND OTHER ASSETS

Cash held by custodian in segregated account*	\$934,160	
Receivable for securities sold	5,644,879	
Dividends, interest and other receivables, net	3,195,767	
Qualified pension plan asset, net excess funded (note 7)	5,151,529	
Prepaid expenses and other assets	1,336,878	16,263,213
TOTAL ASSETS		1,491,936,088

LIABILITIES

Payable for securities purchased	9,321,287	
Accrued preferred stock dividend not yet declared	219,955	
Outstanding option written, at value (premium received \$120,987)	210,000	
Accrued supplemental pension plan liability (note 7)	4,670,485	
Accrued supplemental thrift plan liability (note 7)	2,425,776	
Accrued expenses and other liabilities	2,697,065	
TOTAL LIABILITIES		19,544,568

5.95% CUMULATIVE PREFERRED STOCK, SERIES B -

7,604,687 shares at a liquidation value of \$25 per share (note 5)		190,117,175
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NET ASSETS APPLICABLE TO COMMON STOCK - 29,513,265 shares (note 5)		\$1,282,274,345
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NET ASSET VALUE PER COMMON SHARE		\$43.45
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NET ASSETS APPLICABLE TO COMMON STOCK

Common Stock, 29,513,265 shares at par value (note 5)	\$29,513,265	
Additional paid-in capital (note 5)	550,143,544	
Undistributed net investment income (note 5)	4,555,366	
Undistributed realized gain on investments	74,454,590	
Accumulated other comprehensive loss (note 7)	(1,824,244)	
Unallocated distributions on Preferred Stock	(5,875,941)	
Unrealized appreciation on investments and option written	631,307,765	

NET ASSETS APPLICABLE TO COMMON STOCK		\$1,282,274,345
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* Collateral for options written.

(see notes to unaudited financial statements)

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INCOME		
Dividends (net of foreign withholding taxes of \$579,093)		\$11,585,133
Interest		458
		11,585,591
EXPENSES		
Investment research	\$3,660,179	
Administration and operations	1,919,529	
Office space and related expenses	844,333	
Auditing and legal fees	131,306	
Transfer agent, custodian and registrar fees and expenses	82,041	
State and local taxes	79,958	
Stockholders' meeting and reports	63,205	
Directors' fees and expenses	58,135	6,838,686
NET INVESTMENT INCOME		4,746,905
REALIZED GAIN AND CHANGE IN UNREALIZED APPRECIATION ON INVESTMENTS (NOTES 1, 3 AND 4)		
Net realized gain on investments:		
Securities transactions (long-term except for \$3,671,778)	70,201,135	
Written option transactions (notes 1b and 4)	543,192	
	70,744,327	
Net decrease in unrealized appreciation on investments and option written	(2,189,756)	
NET GAIN ON INVESTMENTS		68,554,571
DISTRIBUTIONS TO PREFERRED STOCKHOLDERS		(5,655,986)
INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		\$67,645,490

	Six Months Ended	Year Ended
	June 30, 2014	December 31, 2013
	(Unaudited)	
OPERATIONS		
Net investment income	\$4,746,905	\$5,228,019
Net realized gain on investments	70,744,327	69,657,472
Net increase (decrease) in unrealized appreciation	(2,189,756)	243,076,683
	73,301,476	317,962,174
Distributions to Preferred Stockholders:		
From net investment income	—	(992,168)
From long-term capital gains	—	(10,319,804)
Unallocated distributions	(5,655,986)	—
Decrease in net assets from Preferred distributions	(5,655,986)	(11,311,972)
INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	67,645,490	306,650,202
OTHER COMPREHENSIVE INCOME - Funded status of defined benefit plans (note 7)	—	5,948,555
DISTRIBUTIONS TO COMMON STOCKHOLDERS		

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From net investment income	—	(5,382,759)
From long-term capital gains	—	(55,987,513)
DECREASE IN NET ASSETS FROM COMMON DISTRIBUTIONS	—	(61,370,272)
CAPITAL SHARE TRANSACTIONS (NOTE 5)		
Value of Common Shares issued in payment of dividends and distributions	—	35,871,304
Cost of Common Shares purchased	(14,840,891)	(13,047,704)
INCREASE (DECREASE) IN NET ASSETS - CAPITAL TRANSACTIONS	(14,840,891)	22,823,600
NET INCREASE IN NET ASSETS	52,804,599	274,052,085
NET ASSETS APPLICABLE TO COMMON STOCK		
BEGINNING OF PERIOD	1,229,469,746	955,417,661
END OF PERIOD (including undistributed net investment income (loss) of \$4,555,366 and (\$191,539), respectively)	\$1,282,274,345	\$1,229,469,746

(see notes to unaudited financial statements)

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The following table shows per share operating performance data, total investment return, ratios and supplemental data for the six months ended June 30, 2014 and for each year in the five-year period ended December 31, 2013. This information has been derived from information contained in the financial statements and market price data for the Company's shares.

	Six months Ended June 30, 2014 (Unaudited)	2013	2012	2011	2010	2009
PER SHARE OPERATING PERFORMANCE						
Net asset value, beginning of period	\$41.07	\$32.68	\$29.78	\$31.26	\$27.50	\$21.09
Net investment income	.16	.17	.24	.18	.19	.11
Net gain (loss) on securities - realized and unrealized	2.41	10.51	5.05	(.68)	4.37	6.94
Other comprehensive income (loss)	—	.20	—	(.10)	—	.07
	2.57	10.88	5.29	(.60)	4.56	7.12
Distributions on Preferred Stock:						
Dividends from net investment income	—	(.04)	(.04)	(.11)	(.07)	(.11)
Distributions from net short-term capital gains	—	—	(.01)	(.01)	(.03)	(.05)
Distributions from net long-term capital gains	—	(.35)	(.34)	(.26)	(.27)	(.19)
Distributions from return of capital	—	—	—	—	—	(.01)
Unallocated	(.19)	—	—	—	—	—
	(.19)	(.39)	(.39)	(.38)	(.37)	(.36)
Total from investment operations	2.38	10.49	4.90	(.98)	4.19	6.76
Distributions on Common Stock:						
Dividends from net investment income	—	(.18)	(.21)	(.15)	(.08)	(.10)
Distributions from net short-term capital gains	—	—	(.02)	(.01)	(.03)	(.05)
Distributions from net long-term capital gains	—	(1.92)	(1.77)	(.34)	(.32)	(.19)
Distributions from return of capital	—	—	—	—	—	(.01)
	—	(2.10)	(2.00)	(.50)	(.43)	(.35)
Net asset value, end of period	\$43.45	\$41.07	\$32.68	\$29.78	\$31.26	\$27.50
Per share market value, end of period	\$36.82	\$35.20	\$27.82	\$24.91	\$26.82	\$23.46
TOTAL INVESTMENT RETURN - Stockholder						
return, based on market price per share	4.60%*	34.24%	19.77%	(5.29%)	16.24%	36.86%

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RATIOS AND SUPPLEMENTAL
DATA

Net assets applicable to Common
Stock,

end of period (000's omitted)	\$1,282,274	\$1,229,470	\$955,418	\$886,537	\$950,941	\$864,323
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Ratio of expenses to average net
assets

applicable to Common Stock	1.12%**	1.27%	1.67%	1.39%	1.54%	1.93%
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Ratio of net investment income to
average net assets

applicable to Common Stock	0.78%**	0.47%	0.74%	0.56%	0.66%	0.46%
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Portfolio turnover rate

	8.08%*	17.12%	9.56%	11.17%	18.09%	24.95%
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PREFERRED STOCK

Liquidation value, end of period
(000's omitted)

	\$190,117	\$190,117	\$190,117	\$190,117	\$190,117	\$190,117
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Asset coverage

774%