

GENERAL AMERICAN INVESTORS CO INC
Form N-CSRS
August 02, 2013

Item 1. Report to Shareholders

For the six months ended June 30, 2013, the net asset value per Common Share increased 13.1%, while the investment return to our stockholders increased by 14.8%. By comparison, our benchmark, the Standard & Poor's 500 Stock Index (including income), increased 13.8%. For the twelve months ended June 30, 2013, the return on the net asset value per Common Share increased by 23.1%, and the return to our stockholders increased by 25.7%; these compare with an increase of 20.6% for the S&P 500. During both periods, the discount at which our share traded continued to fluctuate and on June 30, 2013, it was 13.6%.

As detailed in the accompanying financial statements (unaudited), as of June 30, 2013, the net assets applicable to the Company's Common Stock were \$1,091,097,352 equal to \$36.97 per Common Share.

The increase in net assets resulting from operations for the six months ended June 30, 2013 was \$127,567,332. During this period, the net realized gain on investments sold was \$51,617,540, and the increase in net unrealized appreciation was \$77,829,034. Net investment income for the six months was \$3,776,744, and distributions to Preferred Stockholders amounted to \$5,655,986. During the six months, 37,470 shares of the Company's Common Stock were repurchased for \$1,188,236 at an average discount from net asset value of 14.2%.

U.S. equity markets continued their advance during the second quarter, reaching all-time highs. General American Investors participated fully in the rally.

Economic growth remains quite muted overall with notable deceleration in Latin America and Asia. Year-over-year growth also slowed in the U.S., as increased taxes may have reduced consumption. The divergence

hold finances, owing in part to modestly improved employment growth. Accelerated tax payments from 2012, tax increases, and marginal economic improvement have helped state and local balance sheets, with the exception of a few large and looming municipal bankruptcies. As well, receipts for the Federal Government in 2013 have perceptibly increased due to higher capital gains taxes and payroll taxes. Monetary policy around the world remains accommodative, especially in the developed economies. Although recent commentary by the Federal Reserve regarding a diminished future role for Quantitative Easing (QE) negatively impacted fixed income markets toward the end of the quarter, the impact on equity markets appear to be more transitory, as Fed Governors provided more parameters for an end to QE.

It is questionable whether corporate margins can maintain their lofty levels as the slow recovery absorbs more resources with higher marginal costs. Recent declines in commodity prices—with the exception of oil, which is geopolitically driven—may relieve margin pressure somewhat over the shorter term, but modest gains in income and consumption may have reduced pricing power overall for corporations. As a result, revenue growth will likely remain muted. Equity valuations are elevated modestly by historical standards and appear less compelling in the face of shrinking corporate profit margins, decelerating emerging market economies, and sluggish progress in Europe. Nevertheless, despite the recent bounce in fixed-income investment yields, equities remain the more appealing asset class.

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

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between slowing U.S. growth and rising equity prices would appear to result from the expectation that the impact of tax increases will diminish as the year progresses, while consumer spending will continue to rise.

Domestic-oriented industries—including auto, aviation, finance, restaurants, and housing—improved considerably in the past year. The drag on the economy from mortgage foreclosures, bankruptcy filings, and high leverage is giving way slowly to more balanced house-

30, 2013. It can be accessed on the internet at www.generalamericaninvestors.com.

By Order of the Board of Directors,

GENERAL AMERICAN INVESTORS COMPANY,
INC.

Jeffrey W. Priest
President and Chief Executive Officer

July 17, 2013

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| | Shares | COMMON STOCKS | Value (note 1a) | |
|---|---|--|-----------------------------------|-------------|
| Consumer Discretionary (16.2%) | Automobiles and Components (3.7%) | | | |
| | 1,264,063 | Ford Motor Company | \$19,555,055 | |
| | 330,211 | Visteon Corporation (a) | 20,842,918 | |
| | | | (Cost \$34,971,752) | 40,397,973 |
| | Consumer Services (1.2%) | | | |
| | 750,000 | International Game Technology | (Cost \$8,678,620) | 12,532,500 |
| | Retailing (11.3%) | | | |
| | 284,050 | Kohl's Corporation | | 14,347,366 |
| | 460,000 | Target Corporation | | 31,675,600 |
| | 1,544,668 | The TJX Companies, Inc. | | 77,326,080 |
| | | | (Cost \$44,127,891) | 123,349,046 |
| | | | (Cost \$87,778,263) | 176,279,519 |
| | Consumer Staples (14.2%) | Food, Beverage and Tobacco (10.2%) | | |
| 300,000 | | Diageo plc ADR | | 34,485,000 |
| 450,000 | | Nestle S.A. | | 29,575,242 |
| 230,000 | | PepsiCo, Inc. | | 18,811,700 |
| 728,845 | | Unilever N.V. | | 28,917,195 |
| | | | (Cost \$62,643,490) | 111,789,137 |
| Food and Staples Retailing (4.0%) | | | | |
| 394,500 | | Costco Wholesale Corporation | (Cost \$12,041,935) | 43,619,865 |
| | | | (Cost \$74,685,425) | 155,409,002 |
| Energy (11.8%) | | 1,483,269 | Alpha Natural Resources, Inc. (a) | |
| | 331,478 | Apache Corporation | | 27,787,801 |
| | 300,000 | Canadian Natural Resources Limited | | 8,478,000 |
| | 725,000 | Halliburton Company | | 30,247,000 |
| | 120,000 | Occidental Petroleum Corporation | | 10,707,600 |
| | 803,803 | Ultra Petroleum Corp. (a) | | 15,931,375 |
| | 2,050,000 | Weatherford International Ltd. (a) | | 28,085,000 |
| | | | (Cost \$102,859,313) | 129,009,106 |
| | Financials (25.4%) | Banks (2.1%) | | |
| 675,000 | | Bond Street Holdings LLC, Class A (a) (b) | | 9,450,000 |
| 75,000 | | Bond Street Holdings LLC, Class B (a) (c) | | 997,500 |
| 110,000 | | M&T Bank Corporation | | 12,292,500 |
| | | | (Cost \$14,183,926) | 22,740,000 |

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Diversified Financials (6.0%)

| | | |
|---------|--------------------------|------------|
| 275,000 | American Express Company | 20,559,000 |
| 475,000 | JPMorgan Chase & Co. | 25,075,250 |
| 551,500 | Nelnet, Inc. | 19,903,635 |
| | (Cost \$33,479,860) | 65,537,885 |

Insurance (17.3%)

| | | |
|---------|---|-------------|
| 330,492 | Aon plc | 21,267,160 |
| 825,000 | Arch Capital Group Ltd. (a) | 42,413,250 |
| 110 | Berkshire Hathaway Inc. Class A (a) | 18,546,000 |
| 240,000 | Everest Re Group, Ltd. | 30,782,400 |
| 53,500 | Forethought Financial Group, Inc. Class A (a) (d) | 12,572,500 |
| 400,000 | MetLife, Inc. | 18,304,000 |
| 260,000 | PartnerRe Ltd. | 23,545,600 |
| 365,000 | Platinum Underwriters Holdings, Ltd. | 20,885,300 |
| | (Cost \$75,457,717) | 188,316,210 |
| | (Cost \$123,121,503) | 276,594,095 |

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| | Shares | COMMON STOCKS (continued) | Value (note 1a) |
|--------------------|-----------|--|-----------------------------------|
| Health Care | | Pharmaceuticals, Biotechnology and Life Sciences | |
| (7.5%) | 440,000 | Ariad Pharmaceuticals, Inc. (a) | \$7,695,600 |
| | 100,000 | Celgene Corporation (a) | 11,698,000 |
| | 131,538 | Cytokinetics, Incorporated (a) | 1,521,892 |
| | 428,600 | Gilead Sciences, Inc. (a) | 21,974,322 |
| | 858,979 | Idenix Pharmaceuticals, Inc. (a) | 3,100,914 |
| | 325,000 | Merck & Co., Inc. | 15,096,250 |
| | 755,808 | Pfizer Inc. | 21,170,182 |
| | | (Cost \$55,142,403) | 82,257,160 |
| Industrials | | Capital Goods (5.0%) | |
| (12.5%) | 550,000 | General Electric Company | 12,754,500 |
| | 360,000 | Owens Corning (a) | 14,068,800 |
| | 300,000 | United Technologies Corporation | 27,882,000 |
| | | (Cost \$44,492,152) | 54,705,300 |
| | | Commercial and Professional Services (7.5%) | |
| | 312,500 | The ADT Corporation | 12,453,125 |
| | 1,087,100 | Republic Services, Inc. | 36,896,174 |
| | 263,998 | Towers Watson & Co. Class A | 21,631,996 |
| | 265,000 | Waste Management, Inc. | 10,687,450 |
| | | (Cost \$55,269,445) | 81,668,745 |
| | | (Cost \$99,761,597) | 136,374,045 |
| Information | | Semiconductors and Equipment (2.1%) | |
| Technology | 286,850 | ASML Holding N.V. | (Cost \$4,285,794) 22,692,703 |
| (13.8%) | | Software and Services (2.2%) | |
| | 709,686 | Microsoft Corporation | (Cost \$18,197,174) 24,516,103 |
| | | Technology Hardware and Equipment (9.5%) | |
| | 67,000 | Apple Inc. | 26,567,510 |
| | 820,000 | Cisco Systems, Inc. | 19,954,700 |
| | 615,000 | EMC Corporation | 14,526,300 |
| | 700,000 | QUALCOMM Incorporated | 42,763,000 |
| | | (Cost \$73,800,999) | 103,811,510 |
| | | (Cost \$96,283,967) | 151,020,316 |
| Materials | 100,000 | Nucor Corporation | (Cost \$4,231,438) 4,332,000 |

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(0.4%)

| | | | | |
|----------------------|--|-----------|------------------------|------------|
| Miscellaneous | | Other (e) | (Cost \$50,280,294) | 49,816,707 |
| (4.6%) | | | | |

| | | | | |
|--|---------|---------------------------|------------------------|------------|
| Telecommunication Services (1.4%) | 523,100 | Vodafone Group plc ADR | (Cost \$13,766,306) | 15,036,510 |
|--|---------|---------------------------|------------------------|------------|

| | | | | |
|--|--|----------------------------|-------------------------|---------------|
| | | TOTAL COMMON STOCKS | (Cost \$707,910,509) | 1,176,128,460 |
| | | (107.8%) | | |

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| Shares | SHORT-TERM SECURITY AND OTHER ASSETS | Value (note 1a) |
|-----------------------------------|--|--------------------|
| 106,871,251 | SSgA U.S. Treasury Money Market Fund (9.8%) (Cost \$106,871,251) | \$106,871,251 |
| TOTAL INVESTMENTS (f) (117.6%) | (Cost \$814,781,760) | 1,282,999,711 |
| | Liabilities in excess of cash, receivables and other assets (-0.2%) | (1,785,184) |
| | PREFERRED STOCK (-17.4%) | (190,117,175) |
| | NET ASSETS APPLICABLE TO COMMON STOCK (100%) | \$1,091,097,352 |

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

(b) Level 3 fair value measurement, restricted security acquired in three 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; and 100,000 shares on 4/11/13, unit cost \$14.05 per share. Fair value is \$14.00 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 .87% of net assets.

(c) Level 3 fair value measurement, restricted security exchanged from Class A shares on 05/21/12, aggregate cost \$1,500,000, unit cost is \$20.00 per share and fair value is \$13.30 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 .09% of net assets.

(d) Level 3 fair value measurement, restricted security acquired 11/3/09, aggregate cost \$10,748,000, unit cost is \$200.90 per share and fair value is \$235.00 per share, note 2. Fair valuation is based upon a market approach using valuation metrics (market price-earnings and market price-book value multiples), and changes therein, relative to a peer group of companies established by the underwriters as well as actual transaction prices resulting from limited trading in the security. Significant increases (decreases) in the relative valuation metrics of the peer group companies may result in higher (lower) estimates of fair value. Amount represents 1.15% of net assets.

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

(f) At June 30, 2013 the cost of investments for Federal income tax purposes was the same as the cost for financial reporting purposes, aggregate gross unrealized appreciation was \$487,233,769 aggregate gross unrealized depreciation was \$19,015,818, and net unrealized appreciation was \$468,217,951.

| Contracts (100 shares each) | COMMON STOCK/EXPIRATION DATE/EXERCISE PRICE | Value (note 1a) |
|--|---|--------------------|
| Put Options | | |
| COMMERCIAL AND PROFESSIONAL SERVICES | 175 The ADT Corporation/October 19, 2013/\$41.00 (Premium Deposited with Broker \$57,665) | 66,500 |
| SOFTWARE AND SERVICES | 250 eBay Inc./July 20, 2013/\$50.00 (Premium Deposited with Broker \$46,665) | \$21,750 |
| | 500 eBay Inc./July 20, 2013/\$52.50 (Premium Deposited with Broker \$112,341) | 96,500 |
| | TOTAL PUT OPTIONS (Premiums \$216,671) | \$184,750 |

(see notes to unaudited financial statements)

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| | Shares Transacted | Shares Held |
|--------------------------------------|----------------------|----------------|
| Increases | | |
| New Positions | | |
| Ariad Pharmaceuticals, Inc. | 175,000 | 440,000 (b) |
| General Electric Company | 550,000 | 550,000 |
| Merck & Co., Inc. | 325,000 | 325,000 |
| Occidental Petroleum Corporation | — | 120,000 (b) |
| Ultra Petroleum Corp. | 178,803 | 803,803 (b) |
| Additions | | |
| The ADT Corporation | 20,000 | 312,500 |
| Alpha Natural Resources, Inc. | 665,200 | 1,483,269 |
| Bond Street Holdings LLC, Class A | 250,000 | 675,000 |
| Decreases | | |
| Eliminations | | |
| ABB Ltd. ADR | 1,200,000 | — |
| Reductions | | |
| American Express Company | 40,000 | 275,000 |
| ASML Holding N.V. | 25,000 | 286,850 |
| Celgene Corporation | 20,000 | 100,000 |
| Cisco Systems, Inc. | 140,000 | 820,000 |
| Diageo plc ADR | 50,000 | 300,000 |
| Microsoft Corporation | 85,314 | 709,686 |
| Nelnet, Inc. | 36,000 | 551,500 |
| PepsiCo, Inc. | 10,000 | 230,000 |
| Platinum Underwriters Holdings, Ltd. | 35,000 | 365,000 |
| Waste Management, Inc. | 210,000 | 265,000 |

(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 30,2013 is shown in the following table.

| INDUSTRY CATEGORY | COST(000) | VALUE(000) | PERCENT COMMON NET ASSETS* |
|-------------------|-----------|------------|-------------------------------|
| Financials | | | |
| Banks | \$14,184 | \$22,740 | 2.1% |

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| | | | |
|--------------------------|---------|---------|------|
| Diversified Financials | 33,480 | 65,538 | 6.0 |
| Insurance | 75,458 | 188,316 | 17.3 |
| | 123,122 | 276,594 | 25.4 |
| Consumer Discretionary | | | |
| Automobiles & Components | 34,972 | 40,398 | 3.7 |
| Consumer Services | 8,679 | 12,533 | 1.2 |