

TRI-CONTINENTAL CORP
Form N-CSR
March 06, 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 811-00266

Tri-Continental Corporation
(Exact name of registrant as specified in charter)

225 Franklin Street, Boston, Massachusetts 02110
(Address of principal executive offices) (Zip code)

Scott R. Plummer

5228 Ameriprise Financial Center

Minneapolis, MN 55474

(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 345-6611

Date of fiscal year end: December 31

Date of reporting period: December 31, 2013

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

Annual Report

December 31, 2013

Tri-Continental Corporation

Tri-Continental Corporation

Letter to Stockholders

Dear Stockholders,

We are pleased to present the annual stockholder report for Tri-Continental Corporation (the Fund). The report includes the Fund's investment results, a discussion with the Fund's portfolio managers, a portfolio of investments and financial statements as of December 31, 2013.

The Fund's Common Stock gained 27.76%, based on net asset value, and 29.58%, based on market price, for the 12 months ended December 31, 2013. The Fund's benchmark, the S&P 500 Index, returned 32.39% during the same 12-month period.

During 2013, the Fund paid four distributions, in accordance with its earned distribution policy, that aggregated \$0.676 per share of Common Stock of the Fund. Distributions are based upon amounts distributed by underlying portfolio companies owned by the Fund.

On November 20, 2013, William P. Carmichael was unanimously elected to the Fund's Board of Directors. Mr. Carmichael commenced his service with the Board, in the role of Chairman, effective January 1, 2014. Stephen R. Lewis, Jr., the Fund's former Chairman, retired from his service as Chairman upon Mr. Carmichael's election. Mr. Lewis will continue to serve as a member of the Board, subject to his re-election by stockholders at the Fund's next annual meeting. Per the Fund's retirement policy, it is expected that Mr. Lewis will retire from the Board effective at the end of 2014. Mr. Carmichael has, since 2003, served on the board of trustees of certain other funds in the Columbia Family of Funds, of which the Fund is a part. Mr. Carmichael has agreed to stand for election by stockholders at the Fund's next annual meeting.

The Fund will hold its 84th Annual Meeting of Stockholders on April 11, 2014 in Minneapolis, MN.

Information about the Fund, including daily pricing, current performance, Fund holdings, stockholder reports, the most current prospectus for the Fund, distributions and other information can be found at columbiamanagement.com under the Closed-End Funds tab.

We would like to thank you for your support of Tri-Continental Corporation.

Regards,

J. Kevin Connaughton

President

Annual Report 2013

Table of Contents

<u>Performance Overview</u>	2
<u>Manager Discussion of Fund Performance</u>	3
<u>Portfolio of Investments</u>	5
<u>Statement of Assets and Liabilities</u>	14
<u>Statement of Capital Stock and Surplus</u>	15
<u>Statement of Operations</u>	16
<u>Statement of Changes in Net Assets</u>	17
<u>Financial Highlights</u>	19
<u>Notes to Financial Statements</u>	20
<u>Report of Independent Registered Public Accounting Firm</u>	28
<u>Federal Income Tax Information</u>	29
<u>Directors and Officers</u>	30
<u>Important Information About This Report</u>	37

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

Tri-Continental Corporation

Performance Overview

Performance Summary

- > Tri-Continental Corporation (the Fund) Common Stock gained 27.76%, based on net asset value, and 29.58%, based on market price, for the 12 months ended December 31, 2013.
- > The Fund's benchmark, the S&P 500 Index, returned 32.39% for the same 12-month period.
- > Security selection helped the Fund's quantitative strategy generate higher returns than its benchmark. However, the Fund's flexible capital and income strategy was a drag on performance as the equity market soared.

Average Annual Total Returns (%) (for period ended December 31, 2013)

	Inception	1 Year	5 Years	10 Years
Market Price	01/05/29	29.58	18.31	6.31
Net Asset Value	01/05/29	27.76	18.55	5.99
S&P 500 Index		32.39	17.94	7.41

The performance information shown represents past performance and is not a guarantee of future results. The investment return and principal value of your investment will fluctuate so that your shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information shown. You may obtain performance information current to the most recent month-end by visiting columbiamanagement.com.

Returns reflect changes in market price or net asset value, as applicable, and assume reinvestment of distributions. Returns do not reflect the deduction of taxes that investors may pay on distributions or the sale of shares.

The S&P 500 Index, an unmanaged index, measures the performance of 500 widely held, large-capitalization U.S. stocks and is frequently used as a general measure of market performance.

Indices are not available for investment, are not professionally managed and do not reflect sales charges, fees, brokerage commissions, taxes or other expenses of investing. Securities in the Fund may not match those in an index.

Price Per Share

	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Market Price (\$)	19.98	18.32	17.92	17.55
Net Asset Value (\$)	23.11	21.43	20.54	20.20

Distributions Paid Per Common Share^(a)

Payable Date	Per Share Amount (\$)
March 26, 2013	0.1900
June 25, 2013	0.1615
September 24, 2013	0.1620
December 24, 2013	0.1625

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(a) Preferred Stockholders were paid dividends totaling \$2.50 per share.

The net asset value of the Fund's shares may not always correspond to the market price of such shares. Common stock of many closed-end funds frequently trade at a discount from their net asset value. The Fund is subject to stock market risk, which is the risk that stock prices overall will decline over short or long periods, adversely affecting the value of an investment in the Fund.

Manager Discussion of Fund Performance

For the 12-month period that ended December 31, 2013, Tri-Continental Corporation (the Fund) Common Stock returned 27.76%, based on net asset value, and 29.58%, based on market price. The Fund underperformed its benchmark, the S&P 500 Index, which returned 32.39% for the same time period.

The Fund is managed in two distinct segments. The quantitative segment uses quantitative models to select stocks. The flexible capital and income segment uses a flexible capital and income strategy to invest across a company's investable capital structure, including stocks, bonds and convertible securities. Each segment accounted for approximately 50% of the Fund's assets. Both segments delivered solid gains for the 12-month period. Security selection helped the Fund's quantitative portfolio generate higher returns than its benchmark. However, the Fund's flexible capital and income segment detracted from relative performance as its exposure to fixed income markets were a drag on results in a soaring equity market.

Growth Picked Up, Equity Markets Responded

After a year of strong equity performance in 2012, 2013 was an even better year as investors shrugged off a host of policy, spending and geopolitical concerns to bid prices on stocks and other risky assets higher. Improving economic news also supported the equity markets' strongest showing since the late 1990s. Among income-oriented market sectors, convertible securities were strong performers and high-yield bonds delivered solid single-digit gains. However, most investment grade fixed-income sectors delivered modestly negative returns for the year.

Significant Performance Factors

2013 was a good year for risk. Low or non-dividend paying stocks outperformed higher dividend payers by a wide margin. Higher beta stocks, as measured by their volatility relative to the broad market, outperformed lower beta names. Small-cap stocks outperformed large-cap stocks. And stocks with the greatest earnings variability outperformed those with low variability or stable earnings. Market characteristics that are broadly considered "risk-on" performed better than those that are considered "risk-off."

The market characteristics that dominated in 2013 had mixed results for the Fund. The quantitative model that drives security selection within the quantitative portfolio focuses on three factors: valuation, catalyst and quality. In terms of valuation, stocks that are judged to be inexpensive relative to their peers outperformed. The 20% of S&P 500 Index stocks with the highest scores on valuation measures outperformed the 20% of stocks with the lowest scores by more than 8 percentage points. The catalyst factor produced mixed results in 2013. Second quintile stocks (those that rank between the 21st and 40th percentile of our catalyst measure within the S&P 500 Index) performed well, but all other rankings performed negatively. Finally, given the market's preference for stocks with riskier characteristics, the highest quality companies, which the Fund seeks to identify, underperformed lower quality companies by more than 10 percentage points during the period.

Individual Contributors and Detractors

Security selection drove Fund performance within the Fund's quantitative segment. Within financials, Prudential Financial benefited as interest rates started to rise mid-way through the year. Strong equity markets have been supportive of Prudential's annuity and asset management businesses. MasterCard benefited from a strengthening economy and higher consumer spending. Security selection within

Portfolio Management

Brian Condon, CFA

David King, CFA

Oliver Buckley

Yan Jin

Top Ten Holdings (%)
(at December 31, 2013)

Apple, Inc.	2.6
JPMorgan Chase & Co.	1.9
Verizon Communications, Inc.	1.9
Chevron Corp.	1.6
Cisco Systems, Inc.	1.6
ConocoPhillips	1.6
Microsoft Corp.	1.5
Pfizer, Inc.	1.4
Raytheon Co.	1.4
MasterCard, Inc., Class A	1.3
Percentages indicated are based upon total investments (excluding Money Market Funds).	

For further detail about these holdings, please refer to the section entitled [Portfolio of Investments](#).

Fund holdings are as of the date given, are subject to change at any time, and are not recommendations to buy or sell any security.

Investment Risks

The net asset value of the Fund's shares may not always correspond to their market price. Shares of closed-end funds frequently trade at a discount from their net asset value. The Fund's performance will reflect, in part, the investment decisions of its portfolio managers. Securities selected using the Fund's quantitative methods may perform differently from the market as a whole and there can be no assurance the Fund's quantitative methodology will enable it to achieve its objective. The Fund's share price may be adversely affected if the market value of its portfolio securities falls, fails to rise, or fluctuates due to factors affecting a single issuer, sector of the economy, industry or the market as a whole. The Fund's investment in foreign securities introduces risks not associated with investments in U.S. companies, including country risk, currency risk and custody risk which may result from political, regulatory, economic, social, and other conditions or events in a particular country, currency fluctuations and less developed custody and settlement practices. These risks may be more significant in emerging markets countries. The Fund's use of leverage may magnify losses and increase volatility of returns. The Fund's use of derivatives may expose it to greater risks than are associated with investing directly in the investments underlying the derivatives. The Fund's investments in fixed income securities

Tri-Continental Corporation

Manager Discussion of Fund Performance *(continued)*

expose it to credit risk, interest rate risk, and prepayment and extension risk. These risks may be more pronounced for longer-term securities and high-yield securities (junk bonds). The Fund may invest in convertible securities, including convertible common and preferred stocks and convertible bonds. Convertible securities are subject to both the risks of their security type prior to conversion as well as their security type after conversion. The Fund may be forced to convert a convertible security at an inopportune time, which may decrease the Fund's return.

Portfolio Breakdown (%) (at December 31, 2013)

Common Stocks	68.6
Consumer Discretionary	6.1
Consumer Staples	6.1
Energy	7.4
Financials	12.6
Health Care	8.8
Industrials	7.4
Information Technology	11.5
Materials	3.3
Telecommunication Services	2.9
Utilities	2.5
Convertible Bonds	11.4
Convertible Preferred Stocks	7.3
Consumer Staples	0.9
Energy	0.8
Financials	2.7
Health Care	0.2
Industrials	0.7
Telecommunication Services	0.5
Utilities	1.5
Corporate Bonds & Notes	12.0
Money Market Funds	0.4
Preferred Debt	0.3
Total	100.0

Percentages indicated are based upon total investments. The Fund's portfolio composition is subject to change.

consumer discretionary and within computers and peripherals in the information technology sector detracted from results in the Fund's quantitative segment. The largest individual detractors included VMware, a virtualization infrastructure solutions provider in the technology sector, which moved lower as the company's outlook was below expectations. In the energy sector, Diamond Offshore Drilling, a global offshore oil and gas driller, was hurt by an aging rig fleet, which has affected some of its contracts.

Within the Fund's flexible capital and income segment, Raytheon and Johnson & Johnson were top contributors to performance. Omnicare convertible security also added to results as did Goodrich Petroleum bonds.

The Fund uses S&P 500 Index futures to equitize its cash position. These derivatives had no material impact on Fund performance during the period.

Portfolio Changes

During the year, the stock selection models in our quantitative segment led us to invest in Boeing, Goldman Sachs Group and Medtronic. We sold positions in Bristol-Myers Squibb, The TJX Companies, and Discovery Communications. The flexible capital and income segment's equity weight was modestly above its target baseline, the bond weight was below baseline and the segment's allocation to convertible securities was

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generally neutral. There were no significant positioning changes during the period to the segment.

Our quantitative strategy is based on individual stock selection. As a result, we do not rely on macroeconomic scenarios or market outlooks to make security selections. We do not try to predict when equities (as an asset class) will perform well or when they will perform poorly. Instead, we seek to keep the Fund substantially invested at all times, with security selection driven by our quantitative models, which we work to improve and enhance over time while we keep portfolio holdings focused on our three themes of valuation, catalyst and quality.

Portfolio of Investments

December 31, 2013

(Percentages represent value of investments compared to net assets)

Common Stocks 68.1%

Issuer	Shares	Value (\$)
Consumer Discretionary 6.0%		
Auto Components 0.2%		
Delphi Automotive PLC	43,200	2,597,616
Diversified Consumer Services 0.1%		
H&R Block, Inc.	54,400	1,579,776
Hotels, Restaurants & Leisure 0.3%		
Starwood Hotels & Resorts Worldwide, Inc.	65,700	5,219,865
Household Durables 0.4%		
Whirlpool Corp.	36,100	5,662,646
Media 2.1%		
Comcast Corp., Class A	343,700	17,860,370
DIRECTV ^(a)	73,200	5,057,388
Viacom, Inc., Class B	84,200	7,354,028
Total		30,271,786
Specialty Retail 2.4%		
Best Buy Co., Inc.	243,600	9,714,768
GameStop Corp., Class A	52,400	2,581,224
Gap, Inc. (The)	46,200	1,805,496
Home Depot, Inc. (The)	209,800	17,274,932
Lowe's Companies, Inc.	75,900	3,760,845
Total		35,137,265
Textiles, Apparel & Luxury Goods 0.5%		
Nike, Inc., Class B	50,100	3,939,864
VF Corp.	66,800	4,164,312
Total		8,104,176
Total Consumer Discretionary		88,573,130
Consumer Staples 6.0%		
Beverages 0.1%		
Coca-Cola Enterprises, Inc.	32,600	1,438,638
Food & Staples Retailing 2.1%		
CVS Caremark Corp.	51,800	3,707,326
Kroger Co. (The)	338,800	13,392,764
Wal-Mart Stores, Inc.	175,800	13,833,702

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Total		30,933,792
Food Products 1.0%		
Archer-Daniels-Midland Co.	50,000	2,170,000
Tyson Foods, Inc., Class A	358,300	11,988,718
Total		14,158,718
Household Products 0.6%		
Kimberly-Clark Corp.	20,000	2,089,200
Procter & Gamble Co. (The)	90,000	7,326,900
Total		