NEW AMERICA HIGH INCOME FUND INC
Form N-CSR
March 07, 2018

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 811-05399

THE NEW AMERICA HIGH INCOME FUND, INC.
(Exact name of registrant as specified in charter)

33 Broad Street, Boston, MA	02109
(Address of principal executive offices)	(Zip code)

Ellen E. Terry

33 Broad Street

Boston, MA 02109
(Name and address of agent for service)

Registrant s telephone number, including area code: (617) 263-6400

Date of fiscal year end: December 31, 2017

Date of reporting period: July 1, 2017 to December 31, 2017

Item 1. Report to Stockholders

February 16, 2018

Dear Shareholder,

We are pleased to report to our shareholders on the results of The New America High Income Fund (the "Fund") for the year ended December 31, 2017. The Fund's net asset value (the "NAV") was $10.19 as of December 31st. The market price for the Fund's shares ended the period at $9.40, representing a market price discount of 7.8%. From earnings during the 12-month period ended December 31, 2017, the Fund paid dividends totaling $0.707 per share, including a special dividend of $0.047 per share. The dividend yield for a share of common stock purchased on December 31, 2016 at the market price of $9.26 was 7.63%.

As of December 31st, the Fund had outstanding borrowings of $91 million through its credit facility (the "Facility") with the Bank of Nova Scotia. The borrowings represented approximately 28% of the Fund's total assets which is unchanged from the prior year end. Amounts borrowed under the Facility bear interest at an adjustable rate based on a margin above LIBOR. The rate the Fund paid on the Facility increased throughout 2017 as LIBOR rose following three increases in the Federal Funds rate. The interest rate on the Facility at the end of the period was 2.27%. The average rate on the Facility in 2016 was 1.40% compared with an average rate of 2.00% in 2017.

Though short-term interest rates rose during the period, longer-term rates on high yield bonds declined slightly. The flattening of the yield curve resulted in a decrease in the spread between the rate the Fund pays on the leverage and the market value-weighted average current yield earned on the portfolio. At year-end 2016, the Fund was paying 1.66% on its borrowings and earning a market value-weighted current yield of 6.94% on the portfolio, for a spread of 5.28 percentage points. At the end of 2017, the Fund was paying 2.27% on the leverage while the portfolio's market value-weighted current yield had declined to 6.67%, narrowing the spread to 4.40 percentage points. The Fund's leverage contributed approximately 20% of the net income earned in 2017, compared to 23% of the net income in 2016. These factors, among others, led to a reduction in the income available for the common dividend. In December, the Fund announced that the February 2018 dividend will be $.055 per share.

The Federal Reserve has indicated that, if economic trends continue, investors should expect further increases in the Fed Funds rate in 2018. While increases in interest rates are one risk that bond investors face, it's important to remember that bonds react differently to changing rates. Duration is a measure of the sensitivity of a bond's price to a change in rates. Duration takes into account a bond's maturity and coupon. A relatively short maturity shortens duration as does a relatively high coupon. A short bond duration indicates less sensitivity to changes in interest rates. High yield bonds have relatively shorter durations compared to investment grade bonds, resulting in less price volatility in changing rate environments, although high yield bonds are more sensitive to credit risk, resulting in greater price volatility than investment grade bonds in changing economic conditions.

We remind our shareholders that there is no certainty that the dividend will remain at the current level. The dividend can be affected by portfolio results, the cost and amount of leverage, market conditions, how fully invested the portfolio is and operating expenses, among other factors. Leverage magnifies the effect of price movements on the Fund's net asset value per share. The Fund's leverage increases the Fund's total return in periods of positive high yield market performance. Of course the opposite is true in an unfavorable high yield market.

	Total Returns for the Periods Ending December 31, 2017	
	1 Year	**3 Years Cumulative**
New America High Income Fund (Stock Price and Dividends)*	9.19%	35.61%
New America High Income Fund (NAV and Dividends)*	10.83%	30.27%
Credit Suisse High Yield Index	7.03%	20.53%

Sources: Credit Suisse and The New America High Income Fund, Inc.

Past performance is no guarantee of future results. Total return assumes the reinvestment of dividends.

The Credit Suisse High Yield Index is an unmanaged index. Unlike the Fund, the Index has no trading activity, expenses or leverage.

* Returns are historical and are calculated by determining the percentage change in net asset value or market value with all distributions reinvested. Distributions are assumed to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Because the Fund's shares may trade at either a discount or premium to the Fund's net asset value per share, returns based upon the stock price and dividends will tend to differ from those derived from the underlying change in net asset value and dividends. The variance between the Fund's total return based on stock price and dividends and the total return based on the Fund's NAV and dividends is due to the widening of the stock price discount to the NAV over the last year.

Commentary by T. Rowe Price Associates, Inc.
Market Review

High yield bonds returned 7.03% in 2017 according to the Credit Suisse High Yield Index (the "Index"). The Federal Reserve raised short-term interest rates three times during the 12-month period and maintained its forecast for three additional quarter-point moves in 2018. The U.S. Treasury yield curve flattened throughout the year, as the yield on shorter-maturity securities increased while longer-maturity yields slightly declined. In the closing weeks of the year, Congress passed and President Trump signed into law a major tax reform measure. The new law includes a reduction in corporate and marginal tax rates for individuals at most income levels. The tax overhaul is likely to have widely varying impacts on individual companies, and its potential for positive effects on the U.S economy is being debated. Firmer commodities prices throughout most of the year supported the performance of the below investment-grade market. Oil prices rose after OPEC and other major oil producers agreed to limit output through the end of 2018 and then rallied further amid reports of falling U.S. inventories.

Credit Suisse High Yield Index spreads vs. Treasuries tracked lower throughout the period and ended the year inside 400 basis points compared to the historical average of 577 basis points. Gross high yield new issue activity increased 15% year-over-year, with $328.1 billion coming to market in 2017 according to J.P. Morgan. However, net issuance registered considerably lower than the gross issuance, with refinancing transactions accounting for 63% of total issuance in 2017. Industry flow activity for the overall year was negative. The J.P. Morgan par-weighted default rate ended December at 1.27%, meaningfully below the historical average of 3.80%.

Portfolio Review

The portfolio's investments in the energy, utilities, and metals/minerals industries generated strong absolute and relative performance amid the rebound in commodity prices and due to solid security selection. West Texas Intermediate oil prices surpassed $58 per barrel during the period, rising from the mid-$40-range in April and

May. Our analysts found attractive investment opportunities in the U.S. and in South America, including Petrobras, Republic of Argentina (YPF), and Kosmos Energy. We took profits and trimmed several services and offshore drilling holdings as well as low-quality exploration and production companies that were susceptible to lower commodity prices. The proceeds were redeployed to add to higher-quality, BB-rated issuers in anticipation of industry consolidation and future volatility. Our portfolio was largely neutrally-weighted to energy compared to the Index during the period.

Security selection and a modest overweight allocation in the utilities and metals/minerals industries helped relative performance. NRG Energy, the Fund's second-largest position at the end of the reporting period, was the strongest portfolio contributor. The company is fundamentally sound, is effectively cutting costs, and is deleveraging. Another top contributor was copper miner Freeport McMoRan. Commodity prices have benefited from a positive global growth outlook and, in particular, demand from China. Copper demand and pricing is often viewed as a bellwether for the health of the commodity complex and the global economy.

Several industries typically considered defensive underperformed this past quarter. Cable operators and wireless communications traded lower. The cable/media segment has long been one of our favored industries due to its defensive characteristics; however, this longstanding overweight allocation was a top detractor to performance. We have favored European cable names in recent years based on stable free cash flow, modest growth, and manageable leverage characteristics of these issuers. This thesis came under pressure in November after Altice posted soft third-quarter results. Wireless, another relative industry overweight, saw weakness after the failed merger between Sprint and T-Mobile; both credits are major high yield issuers. Merger and acquisition activity in the greater media and telecommunications sector increased during the year and we believe this trend may continue. Investment grade companies may look to acquire high yield media and telecommunication issuers, which could lead to price appreciation and credit upgrades in the sector.

Security selection within financials was a top contributor to relative performance for the year. The portfolio's exposure to financials was increased throughout the year, notably through the purchase of hybrid securities issued by European banks, including Intesa Sanpaolo and Credit Agricole. Eurozone economic growth continued to improve and bond purchases by the European Central Bank have provided regional support.

Credit selection in the food industry was the top detractor for the year due, in part, to an investment in FAGE, a leading Greek Yogurt company. Higher milk prices weakened the company's fundamentals. Additionally, FAGE has started to lose shelf space and market share to Chobani and other major brands that are more proactive with product innovation and advertising.

Outlook

Global economic growth continues to be positive, largely driven by unprecedented and accommodative central bank policies in recent years. However, the fiscal stimulus of the U.S. tax overhaul may have only a modest effect on U.S. growth next year given that the economy is eight years into an expansion and is operating at full employment. While tax reform has the potential to benefit a number of high yield industries, considerable discussion has centered on the potential for negative impacts specific to the asset class. The tax changes should incent high yield companies to decrease their interest burden because the deduction for interest expense will be less beneficial under the terms of the new law. Corporate fundamentals are largely stable. We do expect an uptick in the default rate in 2018 based on a few expected bankruptcies, but we believe the default rate will remain below the historical average. In addition, the high yield market has been less forgiving of earnings misses, causing periods of volatility. The current environment re-emphasizes the importance of credit selection.

Investor demand for high yield bonds has driven valuations to fairly rich levels. We do not expect further significant capital appreciation in high yield bond prices. Yield spreads to Treasuries are tight compared with historical levels and high yield investors are receiving less to compensate for the additional credit risk of the asset class compared to history. At current price levels, there is little room for disappointment, so if a company does not meet expectations, bonds are more likely to trade lower. Even industries that have been considered defensive, such as cable and health care, have seen softness. Stretched valuations are a risk as is fiscal and central bank policy implementation.

As always, we aim to deliver high current income while seeking to contain volatility inherent in this market. Our team maintains a commitment to credit research and risk-conscious investing that has led to favorable returns for our high yield clients over various market cycles.

Sincerely,

Ellen E. Terry	Mark Vaselkiv
President	Vice President
The New America High Income Fund, Inc.	T. Rowe Price Associates, Inc.

Past performance is no guarantee of future results. The views expressed in this update are as of the date of this letter. These views and any portfolio holdings discussed in the update are subject to change at any time based on market or other conditions. The Fund and T. Rowe Price Associates, Inc. disclaim any duty to update these views, which may not be relied upon as investment advice. In addition, references to specific companies' securities should not be regarded as investment recommendations or indicative of the Fund's portfolio as a whole.

The New America High Income Fund, Inc.

Industry Summary December 31, 2017	**As a Percent of Total Investments***
Energy	14.67%
Financial	11.32%
Cable Operators	10.80%
Healthcare	7.74%
Metals & Mining	6.86%
Information Technology	5.18%
Services	4.21%
Container	3.46%
Gaming	3.42%
Wireless Communications	3.32%
Broadcasting	2.93%
Utilities	2.45%
Chemicals	2.42%
Automotive	2.38%
Building & Real Estate	2.34%
Other Telecommunications	2.20%
Satellites	2.01%
Food/Tobacco	1.88%
Restaurants	1.60%
Manufacturing	1.55%
Consumer Products	1.33%
Entertainment & Leisure	1.22%
Aerospace & Defense	0.90%
Forest Products	0.84%
Building Products	0.69%
Supermarkets	0.64%
Retail	0.54%
Publishing	0.51%
Real Estate Investment Trust Securities	0.38%
Transportation	0.14%
Airlines	0.07%
Total Investments	100.00%

* Percentages do not match the industry percentages in the Schedule of Investments because due to the Fund's leverage total investments exceed net assets by 1.36 times.

Moody's Investors Service Ratings (1) December 31, 2017 (Unaudited)	**As a Percent of Total Investments**
Baa3	0.61%
Ba1	6.96%
Ba2	5.40%
Ba3	16.93%
Total Ba	29.29%
B1	12.69%
B2	12.03%
B3	18.57%
Total B	43.29%

Caa1	12.65%
Caa2	5.97%
Total Caa	18.62%
Ca	0.14%
Unrated	5.48%
Equity	2.57%
Total Investments	100.00%

(1) SOURCE: Moody's Investors Service, Inc. This table compiles the ratings assigned by Moody's to the Fund's holdings.

The New America High Income Fund, Inc.

Schedule of Investments December 31, 2017 (Dollar Amounts in Thousands)

Principal Amount/Units		Moody's Rating (Unaudited)	Value (Note 1)
CORPORATE DEBT SECURITIES 132.49% (d)(f)			
Aerospace & Defense 1.23%			
$ 425	Huntington Ingalls Industries, Senior Notes, 5%, 11/15/25 (g)	Baa3	$ 455
1,800	Standard Aero Aviation Holdings Inc., Senior Notes, 10%, 07/15/23 (g)	Caa2	1,978
465	Triumph Group Inc., Senior Notes, 7.75%, 08/15/25 (g)	B3	495
			2,928
Airlines .09%			
110	American Airlines Group, Senior Notes, 5.625%, 07/15/22 (g)	(e)	114
105	United Airlines, Senior Notes, 4.625%, 03/03/24	(e)	108
			222
Automotive 3.24%			
325	Allison Transmission, Inc., Senior Notes, 5%, 10/01/24 (g)	Ba3	335
1,680	American Axle and Manufacturing, Inc., Senior Notes, 6.25%, 04/01/25 (g)	B2	1,772
220	Aston Martin Capital Holdings, Senior Notes, 6.50%, 04/15/22 (g)	B2	232
275	Group 1 Automotive, Inc., Senior Notes, 5.25%, 12/15/23 (g)	Ba2	284
525	Sonic Automotive, Inc., Senior Subordinated Notes, 5%, 05/15/23	B2	507
525		B2	522

	Sonic Automotive, Inc., Senior Subordinated Notes, 6.125%, 03/15/27		
3,355	Tesla Inc., Senior Notes, 5.30%, 08/15/25 (g)	B3	3,212
339	TI Group Auto Systems, L.L.C., Senior Notes, 8.75%, 07/15/23 (g)	B3	363
500	Titan International, Inc., Senior Notes, 6.50%, 11/30/23 (g)	B3	508
			7,735

Principal Amount/Units		Moody's Rating (Unaudited)	Value (Note 1)
Broadcasting 4.00%			
$ 390	AMC Networks, Inc., Senior Notes, 4.75%, 08/01/25	Ba3	$ 387
970	Clear Channel Worldwide Holdings, Inc., Senior Notes, 6.50%, 11/15/22	B2	987
665	Clear Channel Worldwide Holdings, Inc., Senior Subordinated Notes, 7.625%, 03/15/20	Caa1	650
685	iHeart Communications, Inc., Senior Notes, 9%, 09/15/22	Caa1	491
375	iHeart Communications, Inc., Senior Notes, 9%, 12/15/19	Caa1	276
475	Lin Television Corporation, Senior Notes, 5.875%, 11/15/22	B3	493
1,925	MDC Partners, Inc., Senior Notes, 6.50%, 05/01/24 (g)	B3	1,932
725	Outfront Media Capital LLC, Senior Notes, 5.25%, 02/15/22	B1	745
250	Outfront Media Capital LLC, Senior Notes,	B1	261

	5.625%, 02/15/24		
275	E.W. Scripps Company, Senior Notes, 5.125%, 05/15/25 (g)	B1	274
1,305	Sirius XM Radio, Inc., Senior Notes, 5%, 08/01/27 (g)	Ba3	1,305
700	Townsquare Media, Inc., Senior Notes, 6.50%, 04/01/23 (g)	B3	