

NEW AMERICA HIGH INCOME FUND INC
Form N-CSR
March 02, 2012

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
(Address of principal executive offices)

02109
(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, 2011

Date of reporting period: July 1, 2011 to December 31, 2011

Item 1. Report to Stockholders

February 11, 2012

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, 2011. The Fund's net asset value per share (the "NAV") ended the year at \$9.58. The market price for the Fund's shares was \$10.21 on December 31, 2011, representing a market price premium to NAV of 6.6%. The Fund paid dividends totaling \$1.04 per share, which included an unusually large \$0.325 per share special dividend. The dividend yield for a common stock purchase at year-end 2010 for the year ended December 31, 2011 was approximately 10.4%. During 2011, the Fund paid an ordinary dividend of \$.065 per share per month, following the special dividend of \$.31 for January 2011. However, there is no certainty that the dividend will continue at the current level of \$.065 per share per month. The common stock dividend can be affected by portfolio results, the cost and amount of leverage, market conditions, and operating expenses, among other factors. The Fund's leverage, which is in the form of Auction Term Preferred Stock, contributed approximately 25% of the common dividend. The current extraordinarily low cost of leverage of less than 2% is not expected to continue indefinitely. It is also important to note that leverage is a two-edged sword. Leverage increases the total return to the common shareholders in favorable markets; however the reverse is true in poor markets.

	Total Returns for the Periods Ending December 31, 2011	
	1 Year	3 Years Cumulative
New America High Income Fund (Stock Price and Dividends)*	13.61%	214.52%
New America High Income Fund (NAV and Dividends)	3.87%	127.48%
Lipper Closed-End Fund Leveraged High Yield Average	4.22%	100.90%
Credit Suisse High Yield Index	5.47%	86.11%
Citigroup 10 Year Treasury Index	16.99%	13.93%

Sources: Credit Suisse, Citigroup, Lipper Inc., 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 and Citigroup 10 Year Treasury Index are unmanaged indices. Unlike the Fund, the indices have no trading activity, expenses or leverage.

* 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.

Market Review

In a year fraught with volatility, the high yield market staged a vigorous rally during the final three months to completely recoup losses suffered during the third quarter. As the year came to a close, investors remained deeply concerned about the European debt crisis, but grew more optimistic about positive trends in the U.S. economy. Demand for below investment grade corporate bonds accelerated, leading to meaningful price gains for many securities. Despite the year-end rally, high yield bonds ended the period at compelling yield spreads versus U.S. Treasuries, which currently yield below 1% for issues maturing out to five years. Positive fundamentals for the vast majority of high yield issuers and consensus expectations for defaults to remain low should lend support to recent momentum and carry into the new year.

While the results for high yield bonds lagged investment grade sectors in 2011, overall performance trends were respectable in light of the challenging conditions during the second half of last year. For the second year in a row, there were no defaults in the portfolio, although we navigated through several close calls late in the year. While our credit analysis has led us to the conclusion that companies are generally in excellent shape, efforts to reform Wall Street and enact new regulatory constraints post the credit crisis have altered the broker/dealer community. This dynamic suggests that thinner markets and high volatility will likely remain the Achilles heels of the asset class for the foreseeable future.

Strategy Review

The fourth quarter provided significant drama in a number of historically stable sectors, particularly wireless services. Developments in Sprint and Clearwire put major stress on the credit quality of both companies, although fourth quarter financings and capital infusions stabilized the companies' financial footing. Sprint announced an aggressive initiative to gain market share by offering its customers Apple iPhones at highly subsidized prices. Sprint also hinted it might end its financial support for Clearwire even though it remains the majority owner of the corporation. In December, the two companies reached an agreement for additional capital commitments, giving Clearwire a two year window to continue its buildout. We participated in December new issues for Sprint, but also significantly reduced the Fund's positions in both companies given the ongoing uncertainty. In spite of these challenges, we remain constructive on the wireless industry, as we expect the break down of the AT&T and T Mobile merger may actually lead to other acquisitions as major players seek to add valuable spectrum to their businesses.

The strong performance of CCC-rated issues late in the year gave us an opportunity to dial down some of the Fund's lower rated holdings. We trimmed some of the largest positions, including Intelsat, First Data and Ally to reduce volatility in the portfolio, even though we remain constructive on the credits. The move reflects our view of higher upside potential in medium quality B's after the market sell off. In contrast, earlier in the year we viewed the middle of the market as overvalued. We also increased the Fund's BB allocation during the fourth quarter, as we took advantage of a robust new issue calendar for higher quality companies in the asset class. These shifts are designed to give the portfolio more stability during bouts of risk aversion in 2012. Overall, we have witnessed a growing concentration in BB's and a reduction in CCC weightings in the high yield indices, with CCC exposure now below 10% in many benchmarks. This implies the asset class is growing more conservative in its composition, which bodes well for performance and default trends in 2012 and beyond.

Outlook

In spite of a great fourth quarter, we see more gains ahead for the asset class if the U.S. economy remains on solid footing and continues its current trajectory. Two positive themes could add capital appreciation potential to an already healthy 8% income stream. First, we anticipate a pickup in merger and acquisition activity, as we noted in our remarks regarding wireless services. Energy is another sector where this trend is already evident. Should this theme materialize in a meaningful way, we could see some of the Fund's holdings bought out by higher rated acquirers, generating attractive gains along the way. Second, many high yield companies with debt trading at a discount are exploring refinancing opportunities to extend maturities. These transactions sometimes deliver capital appreciation as the new bond is tendered and often result in an opportunity to redeploy capital into

a new issue. While there is no guarantee that they will do so, if the pieces fall into place, high yield investors could enjoy attractive results in 2012.

Sincerely,

Robert F. Birch
President
The New America High Income Fund, Inc.

Mark Vaselkiv
Vice President
T. Rowe Price Associates, Inc.

Ellen E. Terry
Vice President
The New America High Income Fund, Inc.

Paul A. Karpers
Vice President
T. Rowe Price Associates, Inc.

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, 2011	As a Percent of Total Investments
Oil and Gas	14.89%
Telecommunications	10.08%
Broadcasting and Entertainment	8.80%
Finance	8.62%
Healthcare, Education and Childcare	6.33%
Diversified/Conglomerate Service	6.08%
Mining, Steel, Iron and Non-Precious Metals	5.70%
Diversified/Conglomerate Manufacturing	4.83%
Building and Real Estate	4.23%
Containers, Packaging and Glass	2.99%
Hotels, Motels, Inns and Gaming	2.82%
Beverage, Food and Tobacco	2.72%
Electronics	2.68%
Chemicals, Plastics and Rubber	2.40%
Utilities	2.25%
Retail Stores	2.12%
Automobile	2.06%
Aerospace and Defense	1.86%
Insurance	1.32%
Personal Transportation	1.23%
Personal, Food and Miscellaneous Services	1.20%
Leisure, Amusement and Entertainment	1.17%
Cargo Transport	1.10%
Printing and Publishing	0.55%
Banking	0.52%
Farming and Agriculture	0.50%
Personal Non-Durable Consumer Products	0.48%
Textiles and Leather	0.29%
Groceries	0.18%
Total Investments	100.00%
Moody's Investors Service Ratings December 31, 2011 (Unaudited)	As a Percent of Total Investments
Baa1	0.19%
Baa2	0.12%
Baa3	1.01%
Total Baa	1.32%
Ba1	6.96%
Ba2	9.71%
Ba3	11.48%
Total Ba	28.15%
B1	13.13%
B2	12.29%
B3	21.95%
Total B	47.37%
Caa1	9.74%

Edgar Filing: NEW AMERICA HIGH INCOME FUND INC - Form N-CSR

Caa2	6.24%
Caa3	2.53%
Total Caa	18.51%
Ca	0.21%
Unrated	2.94%
Equity	1.50%
Total Investments	100.00%

The New America High Income Fund, Inc.

Schedule of Investments December 31, 2011 (Dollar Amounts in Thousands)

Principal Amount/Units		Moody's Rating (Unaudited)	Value (Note 1)
CORPORATE DEBT SECURITIES 135.57% (d)			
Aerospace and Defense 2.56%			
\$ 650	BE Aerospace Inc., Senior Notes, 8.50%, 07/01/18	Ba2	\$ 704
475	Bombardier, Inc., Senior Notes, 6.125%, 05/15/21 (g)(EUR)	Ba2	572
475	Ducommun, Inc., Senior Notes, 9.75%, 07/15/18 (g)	B3	490
500	Esterline Technologies, Senior Notes, 7%, 08/01/20	Ba3	529
775	Kratos Defense and Security Solutions, Inc., Senior Notes, 10%, 06/01/17	B3	791
625	Moog, Inc., Senior Notes, 7.25%, 06/15/18	Ba3	659
525	Sequa Corporation, Senior Notes, 11.75%, 12/01/15 (g)	Caa2	553
225	Sequa Corporation, Senior Notes, 13.50%, 12/01/15 (g)	Caa2	239
200	Spirit Aerosystems, Inc., Senior Notes, 7.50%, 10/01/17	Ba3	216
850	Transdigm, Inc., Senior Subordinated Notes, 7.75%, 12/15/18	B3	912
			5,665
Automobile 2.84%			
158	Affinia Group, Inc., Senior Notes, 10.75%, 08/15/16 (g)	B1	169
350	Allison Transmission, Inc., Senior Notes, 7.125% 05/15/19 (g)	Caa1	343

Edgar Filing: NEW AMERICA HIGH INCOME FUND INC - Form N-CSR

400	Conti Gummi Finance B.V., Senior Notes, 8.50%, 07/15/15 (g)(EUR)	Ba3	554
1,175	Ford Motor Company, Senior Notes, 7.45%, 07/16/31	Ba2	1,398
1,000	Ford Motor Credit Company LLC, Senior Notes, 5.75%, 02/01/21	Ba1	1,040
600	Ford Motor Credit Company LLC, Senior Notes, 5.875%, 08/02/21	Ba1	622
		Moody's Rating (Unaudited)	Value (Note 1)
\$ 1,375	Ford Motor Credit Company LLC, Senior Notes, 12%, 05/15/15	Ba1	\$ 1,678
200	Goodyear Tire & Rubber Company, Senior Notes, 8.75%, 08/15/20	B1	220
50	Goodyear Tire & Rubber Company, Senior Notes, 10.50%, 05/15/16	B1	55
225	Pittsburgh Glass Works, LLC, Senior Notes, 8.50%, 04/15/16 (g)	B2	218
			6,297
Banking	.71%		
1,250	Amsouth Bank, N.A., Subordinated Notes, 5.20%, 04/01/15	Ba3	1,163
390	Zions Bancorp, 7.75%, 09/23/14	(e)	417
			1,580
	Beverage, Food and Tobacco	3.75%	
380	Bumble Bee Acquisition Company, Senior Notes, 9%, 12/15/17 (g)	B2	386
525	Cott Beverages, Inc., Senior Notes,	B3	562

Edgar Filing: NEW AMERICA HIGH INCOME FUND INC - Form N-CSR

	8.125%, 09/01/18		
	Cott Beverages, Inc., Senior Notes,		
200	8.375%, 11/15/17	B3	214
	Darling International, Inc., Senior Notes,		
150	8.50%, 12/15/18	Ba3	166
	Del Monte Foods Company, Senior Notes,		
1,150	7.625%, 2/15/19	B3	1,107
	JBS Finance II Ltd., Senior Notes,		
275	8.25%, 01/29/18 (g)	B1	250
	JBS USA, LLC Senior Notes,		
425	11.625%, 05/01/14	B1	482
	Land O'Lakes, Senior Notes,		
750	7.45%, 03/15/28 (g)	Ba1	720
	Michael Foods, Inc., Senior Notes,		
900	9.75%, 07/15/18	Caa1	918
	Pilgrim's Pride Corporation, Senior Notes,		
450	7.875%, 12/15/18	Caa1	417

The accompanying notes are an integral part of these financial statements.

The New America High Income Fund, Inc.

Schedule of Investments **December 31, 2011** **Continued** (Dollar Amounts in Thousands)

Principal Amount/Units		Moody's Rating (Unaudited)	Value (Note 1)
CORPORATE DEBT SECURITIES continued			
\$ 650	Pinnacle Foods Finance LLC, Senior Notes, 8.25%, 09/01/17	B3	\$ 674
800	Pinnacle Foods Finance LLC, Senior Notes, 9.25%, 04/01/15	B3	820
150	Pinnacle Foods Finance LLC, Senior Subordinated Notes, 10.625%, 04/01/17	Caa1	156
275	R&R Ice Cream plc, Senior Notes, 8.375%, 11/15/17 (g)(EUR)		