

NEW AMERICA HIGH INCOME FUND INC
Form N-CSR
March 07, 2011

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, 2010

Date of reporting period: July 1, 2010 to December 31, 2010

Item 1. Reports to Stockholders

February 15, 2011

Dear Fellow 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, 2010. The Fund's net asset value per share (the "NAV") ended the year at \$10.17. The market price for the Fund's shares was \$9.96 on, December 31, 2010, representing a market price discount to NAV of 2.1%. The Fund paid dividends totaling \$1.025 per share, which included an unusually large \$0.31 per share special dividend. The dividend yield for a common stock purchase at year-end 2009 for the year ended December 31, 2010 was approximately 11.3%. 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 current extraordinarily low cost of leverage of less than 2% is not expected to continue indefinitely. The Fund's leverage, which is in the form of Auction Term Preferred Stock (the "ATP"), contributed approximately 25% of the common dividend. It is 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, 2010 | |
|--|---|---------------------------|
| | 1 Year | 3 Years Cumulative |
| New America High Income Fund (Stock Price and Dividends)* | 22.02% | 64.64% |
| New America High Income Fund (NAV and Dividends) | 19.26% | 44.54% |
| Lipper Closed-End Fund Leveraged High Yield Average | 18.90% | 10.34% |
| Credit Suisse High Yield Index | 14.42% | 30.27% |
| Citigroup 10 Year Treasury Index | 8.10% | 17.16% |

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.

* 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

The high yield market generated strong gains during the past three months, capping an outstanding year in absolute returns. The environment for below investment grade bonds remained favorable even as interest rates moved up and investors absorbed a record new issue calendar. The primary driver for our asset

class's momentum originated from increased confidence regarding the U.S. economy. New policy initiatives from Washington, including bipartisan tax legislation, could add a meaningful component to higher growth forecasts for 2011. These developments helped the high yield bond market shake off another bout of European sovereign debt anxiety arising out of Ireland. Investor cash flows into the asset class provided solid underpinnings to the technical picture for high yield bonds as the fundamental outlook evidenced continued improvement throughout the year. This powerful combination took bond prices higher and left the market with attractive gains for the second year running.

The improving sentiment in the high yield universe led to a meaningful shift in performance leadership during the fourth quarter. The spring and summer periods saw BB rated bonds outpace lower rated sectors. As the year came to a close, CCC rated issues regained favor and produced the strongest absolute returns. For the full year, CCC's were the outright winners by a wide margin, to the consternation of more conservative high yield managers.

While BB rated issues retain very favorable characteristics, especially in terms of credit upgrade potential, lower coupons and longer durations make this sector of the market more susceptible to higher interest rates.

Strategy Review

Leveraged buyout related securities made a smart recovery late in 2010, and the Fund benefitted from targeted allocations to this component of the market. The portfolio's biggest winner was Univision, which initiated a major balance sheet recapitalization after announcing a \$1.2 billion equity infusion from Televisa, a world class Mexican media conglomerate. Univision's securities rallied significantly, and the position was our top performer during the quarter. Three new LBOs that came to market and were purchased for the portfolio were Bumble Bee Foods, Dunkin Brands and Syniverse. While the first two are household names in the U.S., Syniverse is a less well known, but highly respected company that provides wireless phone services to the major carriers in the industry. We also added significantly to our holdings in CDW, which offers technology services to small and medium sized businesses in the U.S. We believe CDW could make an attractive IPO candidate in the near term future.

The Fund's investments in economically sensitive sectors proved rewarding throughout the year, and we continued to increase the portfolio's allocation to cyclicals. The most noteworthy event in the high yield market as the year drew to a close was General Motors' initial public offering. Once again, our auto industry exposure has proven very rewarding from a performance attribution standpoint. We expect this industry to continue its recovery in 2011 and therefore purchased a position in a GM convertible bond that priced concurrently with the IPO. On the international front, the most interesting purchase was Fortescue (FMG Resources), an Australian mining concern that ships iron ore to the Chinese steel industry. We continue to favor metals due to our positive secular theme related to global growth.

Outlook

The high yield market enjoyed a default rate of less than 1% in 2010, one of the best results in the history of this asset class. With more confidence now that 2011 economic trends will be significantly improved, we expect credit stress to be a non factor this year. As a result, spreads have room to tighten even further from December 2010 levels. Investors should note that spread tightening can occur through higher interest rates on risk free securities as well as capital appreciation on the Fund's underlying holdings. While the last two years have been quite rewarding for investors in high yield, we continue to see pockets of opportunity even after stellar results in 2009 and 2010. Basic bond math suggests that high yield returns will be more muted this year, but we still see our asset class as compelling against the larger fixed income landscape. Though recent years' gains are unlikely to repeat, investors should still be well served if results match our outlook for modest capital appreciation and high current income.

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, 2010 | As a Percent of Total Investments |
|--|--|
| Finance | 11.43% |
| Telecommunications | 9.74% |
| Oil and Gas | 8.92% |
| Broadcasting and Entertainment | 7.42% |
| Diversified/Conglomerate Service | 7.20% |
| Healthcare, Education and Childcare | 5.86% |
| Retail Stores | 4.45% |
| Mining, Steel, Iron and Non-Precious Metals | 4.32% |
| Hotels, Motels, Inns and Gaming | 3.82% |
| Chemicals, Plastics and Rubber | 3.63% |
| Containers, Packaging and Glass | 3.59% |
| Building and Real Estate | 3.41% |
| Automobile | 3.21% |
| Utilities | 3.02% |
| Electronics | 2.57% |
| Diversified/Conglomerate Manufacturing | 2.46% |
| Beverage, Food and Tobacco | 2.39% |
| Leisure, Amusement and Entertainment | 1.64% |
| Personal, Food and Miscellaneous Services | 1.50% |
| Aerospace and Defense | 1.44% |
| Personal Transportation | 1.34% |
| Insurance | 1.15% |
| Cargo Transport | 1.05% |
| Printing and Publishing | 0.78% |
| Banking | 0.63% |
| Personal Non-Durable Consumer Products | 0.50% |
| Textiles and Leather | 0.50% |
| Ecological | 0.26% |
| Groceries | 0.17% |
| Furnishings, Housewares, Consumer Durable | 0.08% |
| Short-Term Investments | 1.52% |
| Total Investments | 100.00% |
| Moody's Investors Service Ratings December 31, 2010 (Unaudited) | As a Percent of Total Investments |
| Short Term P-1 | 1.52% |
| A3 | 0.88% |
| Baa2 | 0.07% |
| Baa3 | 0.08% |
| Total Baa | 0.15% |
| Ba1 | 5.14% |
| Ba2 | 9.82% |
| Ba3 | 10.02% |
| Total Ba | 24.98% |
| B1 | 14.69% |
| B2 | 12.58% |

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| | |
|-------------------|---------|
| B3 | 19.70% |
| Total B | 46.97% |
| Caa1 | 10.82% |
| Caa2 | 5.24% |
| Caa3 | 3.52% |
| Total Caa | 19.58% |
| Unrated | 2.93% |
| Equity | 2.99% |
| Total Investments | 100.00% |

The New America High Income Fund, Inc.

Schedule of Investments December 31, 2010 (Dollar Amounts in Thousands)

| Principal Amount/Units | | Moody's Rating (Unaudited) | Value (Note 1) |
|--|--|----------------------------------|-------------------|
| CORPORATE DEBT SECURITIES 130.03% (d) | | | |
| Aerospace and Defense 1.97% | | | |
| \$ 650 | BE Aerospace Inc., Senior Notes, 8.50%, 07/01/18 | Ba3 | \$ 709 |
| 475 | Bombardier, Inc., Senior Notes, 6.125%, 05/15/21 (g) (EUR) | Ba2 | 614 |
| 375 | Esterline Technologies, Senior Notes, 7%, 08/01/20 (g) | Ba3 | 388 |
| 325 | Kratos Defense and Security Solutions, Inc., Senior Notes, 10%, 06/01/17 | B3 | 362 |
| 625 | Moog, Inc., Senior Notes, 7.25%, 06/15/18 | Ba3 | 655 |
| 525 | Sequa Corporation, Senior Notes, 11.75%, 12/01/15 (g) | Caa2 | 562 |
| 225 | Sequa Corporation, Senior Notes, 13.50%, 12/01/15 (g) | Caa2 | 241 |
| 200 | Spirit Aerosystems, Inc., Senior Notes, 7.50%, 10/01/17 | Ba3 | 208 |
| 850 | Transdigm, Inc., Senior Subordinated Notes, 7.75%, 12/15/18 (g) | B3 | 878 |
| | | | 4,617 |
| Automobile 3.75% | | | |
| 158 | Affinia Group, Inc., Senior Notes, 10.75%, 08/15/16 (g) | B1 | 176 |
| 1,385 | Allison Transmission, Inc., Senior Notes, 11.25%, 11/01/15 (g) | Caa2 | 1,499 |
| 666 | Commercial Vehicle Group, Inc., 11%, 02/15/13 (i) | (e) | 706 |

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| | | | |
|---|--|---|---------------------------|
| 75 | Conti Gummi Finance B.V., Senior Notes, 6.50%, 01/15/16 (g) (EUR) | B1 | 101 |
| 175 | Conti Gummi Finance B.V., Senior Notes, 7.50%, 09/15/17 (g) (EUR) | B1 | 241 |
| 400 | Conti Gummi Finance B.V., Senior Notes, 8.50%, 07/15/15 (g) (EUR) | B1 | 579 |
| 475 | Ford Motor Company, Senior Notes, 7.45%, 07/16/31 | Ba3 | 511 |
| | | | |
| Principal Amount/Units | | Moody's Rating (Unaudited) | Value (Note 1) |
| \$ 1,200 | Ford Motor Credit Company LLC, Senior Notes, 8.70%, 10/01/14 | Ba2 | \$ 1,344 |
| 1,375 | Ford Motor Credit Company LLC, Senior Notes, 12%, 05/15/15 | Ba2 | 1,726 |
| 750 | Goodyear Tire & Rubber Company, Senior Notes, 10.50%, 05/15/16 | B1 | 855 |
| 1,000 | KAR Holdings, Inc., Senior Subordinated Notes, 10%, 05/01/15 | Caa1 | 1,060 |
| | | | 8,798 |
| Banking .86% | | | |
| 1,250 | Amsouth Bank, N.A., Subordinated Notes, 5.20%, 04/01/15 | Ba3 | 1,203 |
| 495 | Royal Bank of Scotland Group plc, 7.648%, 08/29/49 | Ba2 | 415 |
| 390 | Zions Bancorp, 7.75%, 09/23/14 | (e) | 406 |
| | | | 2,024 |
| Beverage, Food and Tobacco 3.01% | | | |
| 400 | Bumble Bee Acquisition Company, Senior Notes, 9%, 12/15/17 (g) | B2 | 417 |

| | | | |
|-----|--|-----|-----|
| 325 | CEDC Finance Corporation International, Senior Notes, 9.125%, 12/01/16 (g) | B1 | 345 |
| 75 | Constellation Brands, Inc., Senior Notes, 8.375%, 12/15/14 | Ba3 | 81 |
| 525 | Cott Beverages, Inc., Senior Notes, 8.125%, 09/01/18 | B3 | 566 |
| 200 | Cott Beverages, Inc., Senior Notes, 8.375%, 11/15/17 | B3 | 218 |
| 150 | Darling International, Inc., Senior Notes, 8.50%, 12/15/18 (g) | B2 | 156 |
| 50 | Del Monte Corporation, Senior Subordinated Notes, 7.50%, 10/15/19 | Ba3 | 58 |
| 309 | Dole Food Company, Inc., Senior Notes, 13.875%, 03/15/14 | B2 | 377 |

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

The New America High Income Fund, Inc.

Schedule of Investments **December 31, 2010** **Continued** (Dollar Amounts in Thousands)

| Principal Amount/Units | | Moody's Rating (Unaudited) | Value (Note 1) |
|---|--|----------------------------------|-------------------|
| CORPORATE DEBT SECURITIES continued | | | |
| \$ 675 | JBS Finance II Ltd., Senior Notes, 8.25%, 01/29/18 (g) | B1 | \$ 685 |
| 425 | JBS USA, LLC Senior Notes, 11.625%, 05/01/14 | B1 | 496 |
| 750 | Land O'Lakes, 7.45%, 03/15/28 7.45%, 03/15/28 (g) | Ba2 | 671 |
| 900 | Michael Foods, Inc., Senior Notes, 9.75%, 07/15/18 (g) | Caa1 | 977 |