NEW GERMANY FUND INC
Form N-CSR
March 02, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number: 811-05983

The New Germany Fund, Inc.
(Exact Name of Registrant as Specified in Charter)

345 Park Avenue
New York, NY 10154-0004
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (212) 250-3220

Paul Schubert
60 Wall Street
New York, NY 10005
(Name and Address of Agent for Service)

Date of fiscal year end: 12/31

Date of reporting period: 12/31/2014

ITEM 1. REPORT TO STOCKHOLDERS

December 31, 2014

Annual Report

to Shareholders

The New Germany Fund, Inc.

Ticker Symbol: GF

Contents

The Fund seeks long-term capital appreciation primarily through investment in middle-market German equities.

Investments in funds involve risks, including the loss of principal.

The shares of most closed-end funds, including the Fund, are not continuously offered. Once issued, shares of closed-end funds are bought and sold in the open market. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below, or above net asset value.

This Fund is diversified, but primarily focuses its investments in Germany, thereby increasing its vulnerability to developments in that country. Investing in foreign securities presents certain risks, such as currency fluctuations, political and economic changes and market risks. Any fund that concentrates in a particular segment of the market will generally be more volatile than a fund that invests more broadly.

The European Union, the United States and other countries have imposed sanctions on Russia as a result of the Russian military intervention in Ukraine. These sanctions have adversely affected Russian individuals, issuers and the Russian economy, and Russia, in turn, has imposed sanctions targeting Western individuals, businesses and products including food products. The various sanctions have adversely affected, and may continue to adversely affect, not only the Russian economy but also the economies of many countries in Europe, including Germany. Potential developments in Ukraine, and the continuation of current sanctions or the imposition of additional sanctions may materially adversely affect the value of the Fund's portfolio.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

Letter to the Shareholders (Unaudited)

Dear Shareholder,

For the year 2014, the New Germany Fund, Inc.'s total return in U.S. dollars was –6.16% based on net asset value (NAV) and –8.35% based on market price. During the same period, the total return of the Fund's benchmark, the Midcap Market Performance Index, was –8.06%.1 The Fund discount to NAV averaged 9.56% for the year 2014, compared with 10.07% for the year 2013.

The year was characterized by two very different halves. In the first half, equity markets reached new all-time highs on another package of expansionary measures from the European Central Bank (ECB), the ongoing recovery of the U.S. economy, and brisk merger and acquisition (M&A) activity. In the second half, volatility returned to markets with two hefty corrections in October and December. Nonetheless, the Midcap Market Performance Index was able to gain slightly in the second half, adding up to a positive year in local currency terms.

Private consumption continued to be the main driver for the German economy, while corporate investments, against a backdrop of political uncertainty in the European Union (EU) and volatile currency markets, remained subdued.2

According to the German Consumer Confidence Index, consumers assume that the current phase of economic weakness in Germany will be temporary and are expecting the domestic economy to return to growth over the coming months.3 This is reflected in the considerable increase recorded in economic expectations in December. The willingness to consume has also once again risen slightly, further improving on its already extremely high level. The propensity to save has plummeted to a record low. This contributed to further improvement in the consumer climate in the last quarter of the year. The consumer climate indicator, while dropping 7.5 points, is still at an extremely favorable level.

The decrease is most likely attributable to the volatile international situation rather than framework conditions in Germany. From consumers' standpoint, the latter continue to be extremely favorable. Month after month, employment is rising to new record highs. Incomes of both employed Germans and pensioners are developing positively, boosted by the very low rate of inflation of well below one percent.

Overall, it appears that the consumer climate is strong entering the new year and is an indicator that economic development should be good in 2015. Accordingly, we believe that private consumption will continue to play a major role in the German economy in the coming year. However, any potential escalation of international crises may pose a threat to the consumer economy and, therefore, to economic development in Germany as a whole.

After a period of weakness from March to October, December saw the second successive monthly increase in Germany's Ifo Business Climate Index, which strongly suggests the end of the economic rough patch.4 The confidence shock caused by the conflict in Eastern Ukraine has faded since October. Sharply lower oil prices boost hopes for stronger growth in 2015. The headline Ifo Business Climate Index rose from 104.7 in November to 105.5 in December. Most importantly though, the index's expectations component, which typically correlates closely with machinery investment activity, rebounded sharply to 101.1. As we expected, the manufacturing sector, which was the key factor for the 2014 downturn, is now becoming the key driver of the rebound. Resilient export expectations, not least supported by the weakness of the European currency, a strong competitive position, and cheap oil boost the outlook for Germany's industrial backbone. Meanwhile, the domestic-oriented services and retail trade sectors also improved, leaving construction with a slight weakening in confidence as the outlier. All in all, the German economy grew measurably in 2014, with gross domestic product (GDP) notching up real growth of 0.8%.

In our German mid-cap stock portfolio, taking into account the above global macroeconomic background, we have become slightly more constructive again. We added to several industrial names in the expectation that the weakening euro should eventually become a strong tailwind for several of the strong, export-driven companies. We continue to remain positive regarding the strong German consumer, with exposure to select retail stocks and media stocks (subsegments of consumer discretionary) as well as German residential real estate stocks (subsegment of financials).

Within the Fund, positive contributions to performance were generated by LEG Immobilien, Deutsche Annington Immobilien and RTL Group, while detractors included Freenet, Gerresheimer and Sto.*

On December 19, 2014, the Fund announced that its Board of Directors declared distributions per share of $0.369 and $3.166 of ordinary income and capital gains, respectively. These distributions were largely paid for by selling a pro rata slice of the portfolio in January 2015.

Sincerely,

Christian Strenger	Philipp Schweneke	Brian Binder
Chairman	Portfolio Manager	President and Chief Executive Officer

The views expressed in the preceding discussion reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as recommendations. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk, including geopolitical and other risks.

1 The Midcap Market Performance Index is a total-return index that is composed of various mid-cap securities across all sectors of the MDAX and TecDAX. The MDAX is a total-rate-of-return index of 50 mid-cap issues that rank below the DAX. The DAX is a total-rate-of-return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. The TecDAX is a total-return index that tracks the 30 largest and most liquid issues from the various technology sectors of the Prime Standard Segment beneath the DAX. The Midcap Market Performance Index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates. Index returns assume reinvestment of dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly in the Midcap Market Performance Index.

2 The European Union is an organization of European nations which was established in 1993 with the purpose of seeking closer economic and political union. Participating European Union members established an agreement known as The European Monetary Union (a currency union within the Eurozone) which identified the protocols for pooling currency reserves and the introduction of a common currency.

3 The German Consumer Confidence Index ("GfK") is a composite of information extracted from a monthly survey of more than 2,000 consumer interviews about personal spending patterns, inflationary expectations and opinions about the economic outlook. The survey is conducted by the GfK, a market research organization, on behalf of the European Union ("EU") commission.

4 The Ifo Business Climate Index is a monthly survey that measures the business climate in Germany.

* Not held in the portfolio as of December 31, 2014.

Ten Largest Equity Holdings at December 31, 2014 (48.5% of Net Assets)	Country	Percent
1. Airbus Group NV	Netherlands	11.8%
2. LEG Immobilien	Germany	6.4%
3. ProSiebenSat.1 Media	Germany	5.0%
4. OSRAM Licht Group	Germany	4.4%
5. United Internet	Germany	3.9%
6. Symrise	Germany	3.9%
7. Deutsche Annington Immobilien	Germany	3.5%
8. QIAGEN	Netherlands	3.3%
9. Hannover Rueck	Germany	3.2%
10. MTU Aero Engines	Germany	3.1%

Portfolio holdings and characteristics are subject to change and not indicative of future portfolio composition.

For more complete details about the Fund's Schedule of Investments, see page 10. For additional information about the Fund, including performance, dividends, presentations, press releases, market updates, daily NAV and shareholder reports, please visit deutschefunds.com.

Outlook Interview with the

Portfolio Manager (Unaudited)

Portfolio Manager

Philipp Schweneke

Question: Consumer trends in Germany continue to be strong. Is the Fund benefiting from this?

Answer: For the time being, private consumption continues to be the main driver for the German economy. The low unemployment rate (which declined to 6.7% during 2014, the lowest level since the reunification peak of 11.7% in 2005), the record number of 30.7 million employed as of October 2014 (a steep increase from 28 million employed in 2010) and the increasing number of vacant jobs (approximately 0.5 million in December) led to an increase in consumer confidence. As a result, the savings rate dropped and the propensity to spend increased.

We expect the Fund to profit from this trend by its investments in the residential real estate subsegment of financials and online retail sectors, a subsegment of consumer discretionary. Real estate companies showed improved earnings due to an increasing demand for flats, especially in the bigger cities, which led to an increase in rental income. Online retail companies like zooplus, Zalando SE or Rocket Internet profited not only from an improving consumer climate, but also from structural trends. We expect online shopping for clothing (today 9% of sales) is expected to grow in the coming years, due to its additional convenience, changes in consumer behavior and new sales opportunities related to mobile devices and applications.

Question: The euro has been falling against the U.S. dollar, what are the effects on German mid-cap stocks?

Answer: In 2014, the U.S. dollar gained more than 13% against the euro. Reasons for the decline of the euro were stronger growth in the United States compared to the Eurozone. In addition, the central banks followed opposite monetary strategies. While the U.S. Federal Reserve Board (the Fed) started to withdraw surplus money from the financial sector (tapering), the European Central Bank (ECB) prepared for more quantitative easing to support the ailing economy.[1] This in turn led to record low interest rate levels in the Eurozone and to an increasing demand for U.S. dollars, which offered interest rates 200 basis points higher than the Eurozone.[2] The strong U.S. dollar will be very supportive of the export-oriented German "Mittelstand." We estimate that the currency trend could add up to 5% to earnings of German mid-cap stocks. Bear in mind that the fall of the euro started in earnest from July 2014 onwards, so that the favorable year-over-year comparisons started with the third and fourth quarters. Since even mid-sized companies use some form of currency hedging, they may start to benefit meaningfully from the currency trend from the second quarter of 2015 onwards.

During the course of the year, we built positions in companies which should profit from their production in the Eurozone, and the billing in U.S. dollars (namely MTU Aero Engines, Airbus Group, Aurubis, Hochtief and OSRAM Licht Group).

Question: What effect will the falling oil price have on German corporations?

Answer: In 2014, the oil price experienced a decline not seen since the crisis of 2008. Brent Crude dropped to $57.33 at the end of December, from a high of $115 in June.3 The sharp decline of more than 50% was caused by a combination of excess supply and slowing demand. The output from non-conventional production (fracking) in the U.S. had increased continuously in the last two years, making the country more and more independent of oil imports. Meanwhile, the demand outside of the U.S. declined due to an economic slowdown in Asia. Since some of the established players wanted to maintain their market shares, which had been reduced by the success of the fracking industry, some of them started to grant discounts, with which they hoped to squeeze some of the non-conventional producers out of the market.

Since Germany barely produces any oil, it is more or less completely dependent on oil imports. The decline in oil prices (even taking the stronger U.S. dollar into account) therefore has the effect of a huge economic stimulus package. While private consumers see their gas and energy bills decline significantly, companies like MTU profit from additional demand for spare parts for older turbines, which can now run profitably again. Energy-intensive companies like Aurubis (copper smelting), which considered relocation in the past due to Germany's high energy costs, are gaining competitiveness. The flip side of the coin is the worsened earnings outlook and sentiment for companies in the renewable energy sector. We reacted to this trend by selling parts of our positions in Nordex (wind turbines) and Wacker Chemie (high-grade silicon for solar cells).

1 Quantitative easing is a policy enacted by a country's central bank in an effort to stimulate the economy.

2 The Eurozone refers to a currency union among the 17 members of the European Union states that have adopted the euro as their sole currency.

3 Brent Crude is a classification of light crude oil that serves as a benchmark for the price of oil worldwide.

Performance Summary December 31, 2014 (Unaudited)

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit deutschefunds.com for The New Germany Fund, Inc.'s (the "Fund") most recent performance.

Fund specific data and performance are provided for information purposes only and are not intended for trading purposes.

Average Annual Total Returns as of 12/31/14

	1-Year	5-Year	10-Year
Net Asset Value(a)	(6.16)%	13.16%	11.38%
Market Price(a)	(8.35)%	15.48%	12.08%
Midcap Market Performance Index(b)	(8.06)%	12.15%	10.09%

a Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market value reflects changes in market value during each period. Each figure includes reinvestments of income and capital gain distributions, if any. Total returns based on net asset value and market price will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares trade during the period. Expenses of the Fund include investment advisory and administration fees and other fund expenses. Total returns shown take into account these fees and expenses. The annualized expense ratio of the Fund for the year ended December 31, 2014 was 1.14%.

b The Midcap Market Performance Index is a total-return index that is composed of various mid-cap securities across all sectors of the MDAX and TecDAX. The MDAX is a total-rate-of-return index of 50 mid-cap issues that rank below the DAX. The DAX is the total-rate-of-return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. The TecDAX is a total-return index that tracks the 30 largest and most liquid issues from the various technology sectors of the Prime Segment beneath the DAX.

Index returns do not reflect any fees or expenses and it is not possible to invest directly in the Midcap Market Performance Index.

Net Asset Value and Market Price

	As of 12/31/14	As of 12/31/13
Net Asset Value	$15.32	$21.24
Market Price	$14.04	$19.93

Prices and Net Asset Value fluctuate and are not guaranteed.

Distribution Information

Twelve Months as of 12/31/14:	
Income	$0.37
Capital Gains	$3.97

Distributions are historical, not guaranteed and will fluctuate. Distributions do not include return of capital or other non-income sources.

Schedule of Investments as of December 31, 2014

	Shares	Value ($)
Germany 102.4%		
Common Stocks 99.6%		
Aerospace & Defense 3.1%		
MTU Aero Engines	82,217	7,176,882
Auto Components 2.1%		
Hella KGaA Hueck & Co.*	78,897	3,387,608
SAF-Holland	99,805	1,340,148
		4,727,756
Chemicals 7.5%		
Evonik Industries	181,961	5,970,707
Symrise	147,631	8,952,678
Wacker Chemie	20,494	2,257,274
		17,180,659
Commercial Services & Supplies 1.5%		
Bilfinger Berger†	60,936	3,417,025
Construction & Engineering 1.5%		
Hochtief	47,676	3,375,062
Diversified Financial Services 0.7%		
Grenkeleasing	13,954	1,502,165
Diversified Telecommunication Services 1.0%		
Telefonica Deutschland Holding	432,154	2,307,536
Electrical Equipment 4.9%		
Nordex*	68,188	1,237,718
OSRAM Licht Group*	251,688	9,974,338
		11,212,056
Electronic Equipment, Instruments & Components 1.3%		
Jenoptik	236,794	2,969,051

Food & Staples Retailing 2.7%		
Metro*	204,478	6,260,607
Health Care Equipment & Supplies 0.9%		
STRATEC Biomedical	36,221	2,004,388
Health Care Providers & Services 3.0%		
Rhoen Klinikum	244,980	6,873,892
Health Care Technology 0.6%		
CompuGroup Medical	53,956	1,298,884
Hotels, Restaurants & Leisure 2.0%		
TUI	268,025	4,474,372
Industrial Conglomerates 2.1%		
Rheinmetall	111,096	4,874,428
Insurance 3.9%		
Hannover Rueck	81,666	7,406,389
Talanx	52,622	1,608,608
		9,014,997
Internet & Catalog Retail 0.8%		
Zalando SE*	14,278	440,438
zooplus*†	16,806	1,340,778
		1,781,216
Internet Software & Services 6.6%		
Rocket Internet*	23,908	1,486,276
United Internet	198,436	8,998,201
XING	41,685	4,680,069
		15,164,546
IT Services 3.1%		
Wirecard	161,137	7,106,079
Life Sciences Tools & Services 2.7%		
Evotec*†	128,970	573,355
Gerresheimer	41,534	2,258,454
MorphoSys*	35,291	3,271,451
		6,103,260
Machinery 10.8%		
DMG MORI SEIKI	31,652	899,801
Duerr	34,975	3,099,576
GEA Group	120,792	5,348,068
KION Group	91,610	3,516,892
Krones	49,989	4,883,694
Pfeiffer Vacuum Technology	13,536	1,123,291
Rational	4,776	1,500,713
Stabilus*	139,003	4,278,626
		24,650,661
Media 7.1%		
Axel Springer	31,968	1,936,678
ProSiebenSat.1 Media	269,322	11,347,573
Stroeer Media	95,204	2,846,960
		16,131,211
Metals & Mining 2.6%		
Aurubis	88,643	4,991,088
Salzgitter	30,617	867,045
		5,858,133

Pharmaceuticals 0.7%		
Stada Arzneimittel	51,120	1,561,457
Professional Services 0.7%		
Amadeus Fire	21,818	1,646,938
Real Estate Management & Development 12.2%		
Deutsche Annington Immobilien	233,607	7,945,141
Deutsche Wohnen	223,287	5,288,759
LEG Immobilien	195,796	14,682,606
		27,916,506
Semiconductors & Semiconductor Equipment 2.9%		
Dialog Semiconductor*	98,923	3,509,239
Kontron*	531,832	3,220,003
		6,729,242
Software 0.8%		
Software	74,955	1,831,596
Specialty Retail 1.1%		
Fielmann	35,316	2,415,916
Technology Hardware, Storage & Peripherals 0.3%		
Wincor Nixdorf	15,370	747,628
Textiles, Apparel & Luxury Goods 1.3%		
Gerry Weber International	34,225	1,413,878
Hugo Boss	13,021	1,601,928
		3,015,806
Thrifts & Mortgage Finance 1.7%		
Aareal Bank	94,205	3,793,721
Trading Companies & Distributors 3.1%		
Brenntag	112,098	6,306,986
Kloeckner*	69,550	754,099