Apollo Tactical Income Fund Inc.
Form N-CSR
March 03, 2015
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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 811-22591

Apollo Tactical Income Fund Inc.

(Exact name of registrant as specified in charter)

9 West 57th Street

New York, New York 10019

(Address of principal executive offices) (Zip code)

Joseph Moroney, President

9 West 57th Street

New York, New York 10019

(Name and address of agent for service)

Registrant s telephone number, including area code: (212) 515-3200

Date of fiscal year end: December 31

Date of reporting period: December 31, 2014

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Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

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Apollo Senior Floating Rate Fund Inc. (NYSE: AFT)

Apollo Tactical Income Fund Inc. (NYSE: AIF)

Annual Report

December 31, 2014

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Economic and market conditions change frequently.

There is no assurance that the trends described in this report will continue or commence.

This report, including the financial information herein, is transmitted to shareholders of the Funds for their information. It is not a prospectus. Past performance results shown in this report should not be considered a representation of future performance. Statements and other information herein are as dated and are subject to change.

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Apollo Senior Floating Rate Fund Inc.

Apollo Tactical Income Fund Inc.

Manager Commentary (unaudited)

As of December 31, 2014

Dear Shareholders,

We would like to start by saying thank you for your interest in the Apollo Senior Floating Rate Fund Inc. and the Apollo Tactical Income Fund Inc. (the Funds). We appreciate the trust and confidence you have placed with us through your investment in the Funds.

The year 2014 was highlighted by a significant disparity between global credit and equity markets, though the path for each was different and tortuous. Equities started the year under pressure due to weakness in global economies, growing geopolitical concerns and a near unanimous view that U.S. interest rates were headed higher. Credit on the other hand started the year strong as many of these same factors (or ultimate lack thereof in the case of higher rates) created demand for certain credit assets including investment grade bonds, high-yield bonds and leveraged loans. Technical conditions in the loan and high-yield markets helped increase demand with strong inflows via retail funds and collateralized loan obligations (CLOs) and relatively light new issuance.

Despite fund flows for leveraged loan mutual funds turning negative for the first time in several years in April 2014, equity and fixed income markets were able to sustain solid returns through the first half of the year, shrugging off increasing tensions between Ukraine and Russia and ongoing debate over the timing of Federal Reserve action on interest rates. Through the second quarter, high-yield bonds and loans returned 5.8% (as measured by the J.P. Morgan High-Yield Default Monitor) and 2.4% (as measured by the J.P. Morgan Leveraged Loan Index), respectively, while equities returned 7.1% (as measured by the S&P 500 Index), emerging market bonds gained 9.1% (as measured by the J.P. Morgan EMBIG Index) and investment-grade bonds gained 5.8% (as measured by the J.P. Morgan JULI Index). As a reference point, high-yield bonds hit their lowest yield of the year on June 23, 2014 at 5.12% (as measured by the J.P. Morgan High-Yield Default Monitor) resulting in part from the combination of spread compression and low U.S. Treasury yields.

The second half of the year began with a sharp reversal of conditions in the credit markets. Negative news, concerns about valuations and ongoing fears regarding the impact rising rates could have on fixed income products initiated a series of weekly outflows from high-yield bond funds that lasted several weeks and totaled nearly $5.4 billion, representing a material portion of the $7.9 billion that had flowed into the asset class during the year up to that point. Thus began a see-saw pattern of rallies and selloffs in high-yield bonds and leveraged loans that would last through the end of year, fueled by varying combinations of supply and demand technicals, strength in equities, rate concerns, falling oil and commodity prices and overall weaker risk appetite. High-yield bonds and leveraged loans ended the year with gains of just 2.2% (as measured by the J.P. Morgan High-Yield Default Monitor) and 2.0% (as measured by the J.P. Morgan Leveraged Loan Index), respectively, relying on their attractive income components to produce positive total returns, while the S&P 500 Index mostly shrugged off many of the same concerns to gain an impressive 13.7% return on the year, including dividends. Given the strong bid for U.S. Treasuries, investment grade bonds and emerging market bonds finished the year with gains of 7.8% (as measured by the J.P. Morgan JULI Index) and 5.5% (as measured by the J.P. Morgan EMBIG Index), respectively.

Generally, credit fundamentals in 2014 were strong by historical standards. The default rate for the year ended at 0.34% for loans (as measured by the S&P Capital IQ LCD) (excluding Energy Future Holdings Corp., formerly known as TXU Corp.), and 2.04% for high-yield bonds (as measured by the BofA Merrill Lynch High-Yield Master II Index), which was the lowest level for loans since December 2007, driven by a combination of low interest rates, open capital markets and solid overall economic growth. We currently expect that default rates in 2015 will begin to inch higher as the credit cycle matures and the impact of lower oil and commodity prices takes its toll on issuers in those industries. However, the silver lining of all of the volatility experienced during the second half of 2014 is that as we enter 2015, spreads and terms across loans and high-yield bonds are more attractive now than they were during most of 2014, creating a better relative value trading environment and potentially interesting total return opportunities amongst issuers caught up in the commodity related sell-off. We currently expect continued volatility in 2015 as the credit markets deal with the debate over and potential impact of rising rates (maybe), geopolitical concerns (again) and ongoing concerns about growth outside of the U.S. (again).

We appreciate your interest and support in the Funds. If you have any questions about the Funds, please call 1-888-301-3838, or go to our website at www.agmfunds.com.

Sincerely,

Apollo Credit Management, LLC

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Apollo Senior Floating Rate Fund Inc.

Financial Data

As of December 31, 2014 (unaudited)

Portfolio Composition (as % of Current Market Value of Investment Securities)	
Loans	93.1%
High-Yield Bonds	5.7%
Equity/Other	1.2%

Portfolio Characteristics (a)	
Weighted Average Floating-Rate Spread	4.86%
Weighted Average Fixed-Rate Coupon	10.44%
Weighted Average Days to Reset (floating assets)	63
Weighted Average Modified Duration (in years) (fixed assets)	2.30
Average Position Size	$ 2,197,359
Number of Positions	195
Weighted Average Rating	B

Credit Quality (b)	
BBB- or Higher	0.2%
BB	9.3%
B	79.7%
CCC+ or Lower	6.4%
Not Rated	4.4%

Top 5 Industries (as % of Current Market Value of Investment Securities) (c)	
Banking, Finance, Insurance & Real Estate	9.9%
Services: Business	9.4%
Telecommunications	8.8%
Healthcare & Pharmaceuticals	8.2%
Media: Broadcasting & Subscription	7.7%
Total	**44.0%**

Top 10 Issuers (as % of Current Market Value of Investment Securities) (d)	
First Data Corp.	2.8%
Opal Acquisition, Inc.	1.8%
Global Tel*Link Corp.	1.6%
TIBCO Software, Inc.	1.6%
Asurion, LLC	1.4%
Hyperion Finance S.a.r.l.	1.3%
Securus Technologies Holdings, Inc.	1.3%
Charming Charlie, LLC	1.2%
WideOpenWest Finance, LLC	1.2%
Onex Carestream Finance, L.P.	1.2%
Total	**15.4%**

Performance Comparison	Year Ended December 31, 2014	Since Inception on February 23, 2011 to December 31, 2014
AFT - Stock Price	(1.48)%(e)	2.12%(e)(f)
AFT - NAV	2.63%(e)	5.94%(e)(f)
S&P/LSTA Leveraged Loan Index (g)	1.60%	3.96%(f)

(a) Averages based on par value of investment securities, except for the weighted average modified duration, which is based on market value.
(b) Credit quality is calculated as a percentage of fair value of investment securities at December 31, 2014. The quality ratings reflected were issued by Standard & Poor s Ratings Group (S&P), a nationally recognized statistical rating organization. Credit quality ratings reflect the rating agency s opinion of the credit quality of the underlying positions in the Fund s portfolio and not that of the Fund itself. Credit quality ratings are subject to change.
(c) The industry classifications reported are from widely recognized market indexes or rating group indexes, and/or as defined by Fund management, with the primary source being Moody s Investors Service (Moody s), a nationally recognized statistical rating organization.
(d) Holdings are subject to change and are provided for informational purposes only.
(e) Performance reflects total return assuming all distributions were reinvested at the dividend reinvestment rate. Past performance does not necessarily indicate how the Fund will perform in the future. The performance information provided does not reflect the deduction of taxes that a shareholder would pay on distributions received from the Fund.
(f) Annualized.
(g) The S&P/LSTA Leveraged Loan Index is a broad index designed to reflect the performance of the U.S. Dollar facilities in the leveraged loan market.

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Apollo Tactical Income Fund Inc.

Financial Data

As of December 31, 2014 (unaudited)

Portfolio Composition (as % of Current Market Value of Investment Securities)	
Loans	63.3%
High-Yield Bonds	25.7%
Structured Products	10.0%
Equity/Other	1.0%

Portfolio Characteristics (a)	
Weighted Average Floating-Rate Spread	5.64%
Weighted Average Fixed-Rate Coupon	8.61%
Weighted Average Days to Reset (floating assets)	63
Weighted Average Modified Duration (in years) (fixed assets)	3.59
Average Position Size	$ 2,447,470
Number of Positions	166
Weighted Average Rating	B

Credit Quality (b)	
BB	12.0%
B	70.2%
CCC+ or Lower	11.4%
Not Rated	6.4%

Top 5 Industries (as % of Current Market Value of Investment Securities) (c)	
Banking, Finance, Insurance & Real Estate	9.2%
Energy: Oil & Gas	8.1%
Services: Business	6.9%
Telecommunications	6.1%
Healthcare & Pharmaceuticals	6.0%
Total	**36.3%**

Top 10 Issuers (as % of Current Market Value of Investment Securities) (d)	
Atlas Senior Loan Fund, Ltd.	2.3%
Land O Lakes Capital Trust I	1.8%
TIBCO Software, Inc.	1.7%
Laureate Education, Inc.	1.6%
TPC Group, Inc. (Texas Petrochemical)	1.5%
Chiquita Brands International, Inc. / Chiquita Brands, LLC	1.4%
Onex Carestream Finance, L.P.	1.4%
StoneMor Partners L.P. / Cornerstone Family Services of West Virginia	1.4%
Avaya, Inc.	1.4%
Opal Acquisition, Inc.	1.4%
Total	**15.9%**

Performance Comparison	**Year Ended December 31, 2014**	**Since Inception on February 25, 2013 to December 31, 2014**
AIF - Stock Price	(2.51)%(e)	(4.02)%(e)(f)
AIF - NAV	2.63%(e)	5.70%(e)(f)
S&P/LSTA Leveraged Loan Index (g)	1.60%	3.01%(f)

(a) Averages based on par value of investment securities, except for the weighted average modified duration, which is based on market value.

(b) Credit quality is calculated as a percentage of fair value of investment securities at December 31, 2014. The quality ratings reflected were issued by S&P, a nationally recognized statistical rating organization. Credit quality ratings reflect the rating agency s opinion of the credit quality of the underlying positions in the Fund s portfolio and not that of the Fund itself. Credit quality ratings are subject to change.

(c) The industry classifications reported are from widely recognized market indexes or rating group indexes, and/or as defined by Fund management, with the primary source being Moody s, a nationally recognized statistical rating organization. The Top 5 Industries table above excludes Structured Products which represent 10.0% of the portfolio as of December 31, 2014.

(d) Holdings are subject to change and are provided for informational purposes only.

(e) Performance reflects total return assuming all distributions were reinvested at the dividend reinvestment rate. Past performance does not necessarily indicate how the Fund will perform in the future. The performance information provided does not reflect the deduction of taxes that a shareholder would pay on distributions received from the Fund.

(f) Annualized.

(g) The S&P/LSTA Leveraged Loan Index is a broad index designed to reflect the performance of the U.S. Dollar facilities in the leveraged loan market.

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Apollo Senior Floating Rate Fund Inc.

Schedule of Investments

December 31, 2014

	Principal Amount ($)	Value ($)
Senior Loans - 137.6% (a)		
AEROSPACE & DEFENSE - 9.2%		
Alion Science and Technology Corp.		
Tranche A Term Loan, 8.00%, 08/17/18 (b)	2,009,803	1,989,705
Tranche B Term Loan, 11.00%, 08/16/19 (b)	1,832,894	1,796,237
B/E Aerospace, Inc.		
Term Loan, 4.00%, 12/16/21	2,647,928	2,642,632
Camp International Holding Co.		
2013 First Lien Replacement		
Term Loan, 4.75%, 05/31/19	1,293,630	1,296,864
2013 Second Lien Replacement Term Loan, 8.25%, 11/29/19	1,000,000	1,005,000
Deltek, Inc.		
First Lien Term Loan, 4.50%, 10/10/18	847,837	839,859
Second Lien Term Loan, 10.00%, 10/10/19	1,091,000	1,098,272
Photonis Technologies SAS		
Term Loan, 8.50%, 09/18/19	3,789,055	3,675,383
SRA International, Inc.		
Term Loan, 6.50%, 07/20/18	3,460,380	3,461,470
TASC, Inc.		
First Lien Term Loan, 6.50%, 05/22/20	1,428,029	1,399,112
First Lien Term Loan B, 05/22/20 (c)	500,000	489,875
Second Lien Term Loan, 12.00%, 05/21/21 (d)	2,233,239	2,277,904
U.S. Joiner Holding Co.		
Term Loan, 7.00%, 04/16/20 (b)	2,481,250	2,444,031
Vencore, Inc.		
Second Lien Term Loan, 9.00%, 05/23/20	606,000	596,909
WP CPP Holdings, LLC		
First Lien Term Loan, 4.75%, 12/28/19	1,157,733	1,151,944
		26,165,197
AUTOMOTIVE - 1.0%		
American Tire Distributors, Inc.		
New 2014 Initial Term Loan, 5.75%, 06/01/18	1,381,907	1,385,362
Fram Group Holdings,		
Inc./Prestone Holdings, Inc.		
Second Lien Term Loan, 10.50%, 01/29/18	1,490,285	1,455,509
		2,840,871
BANKING, FINANCE, INSURANCE & REAL ESTATE - 9.1%		
AmWINS Group, LLC		
First Lien New Term Loan, 5.00%, 09/06/19	4,391,840	4,368,058
Asurion, LLC		
Incremental Tranche B-1 Term Loan, 5.00%, 05/24/19	4,413,713	4,365,648
Second Lien Term Loan, 8.50%, 03/03/21	1,562,000	1,556,791

	Principal Amount ($)	Value ($)
BANKING, FINANCE, INSURANCE & REAL ESTATE (continued)		
Hyperion Finance S.a.r.l. (United Kingdom)		

Term Loan, 5.75%, 10/17/19 (b) (e)	5,346,000 &n