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Stone Harbor Emerging Markets Income Fund
Form N-CSRS
August 05, 2016

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: 811-22473

Stone Harbor Emerging Markets Income Fund
(Exact name of registrant as specified in charter)

1290 Broadway, Suite 1100
Denver, CO 80203

(Address of principal executive offices) (Zip code)

Adam J. Shapiro, Esq.
c/o Stone Harbor Investment Partners LP
31 West 52nd Street, 16th Floor
New York, NY 10019

(Name and address of agent for service)

With copies To:

Michael G. Doherty, Esq.
Ropes & Gray LLP
1211 Avenue of the Americas
New York, NY 10036

Registrant's telephone number, including area code: (303) 623-2577

Date of fiscal year end: November 30

Date of reporting period: May 31, 2016

Item 1. Report to Stockholders.

Distribution Policy
May 31, 2016

Stone Harbor Emerging Markets Income Fund (the “Fund”), acting pursuant to a Securities and Exchange Commission exemptive order and with the approval of the Fund’s Board of Trustees (the “Board”), has adopted a plan, consistent with its investment objectives and policies to support a level distribution of income, capital gains and/or return of capital (the “Plan”). In accordance with the Plan, the Fund currently distributes \$0.18 per share on a monthly basis.

The fixed amount distributed per share is subject to change at the discretion of the Fund’s Board. Under the Plan, the Fund will typically distribute most or all of its available investment income to its shareholders, consistent with its primary investment objectives and as required by the Internal Revenue Code of 1986, as amended (the “Code”). The Fund may also distribute long term capital gains and short term capital gains and return capital to shareholders in order to maintain a level distribution. Each monthly distribution to shareholders is expected to be at the fixed amount established by the Board, except for extraordinary distributions and potential distribution rate increases or decreases to enable the Fund to comply with the distribution requirements imposed by the Code. In addition, the Fund may distribute more than its income and net realized capital gains, and therefore, a portion of the distribution may be a return of capital. A return of capital may occur, for example, when some or all of the money that a shareholder invested in the Fund is paid back to that shareholder. A return of capital distribution does not necessarily reflect the Fund’s investment performance and should not be confused with ‘yield’ or ‘income’. The amounts and sources of distributions reported to shareholders during the fiscal year are only estimates and are not provided for tax or financial reporting purposes. The actual amounts and sources of the amounts for tax or financial reporting purposes will depend upon the Fund’s investment experience during the year and are subject to change.

Shareholders should not draw any conclusions about the Fund’s investment performance from the amount of these distributions or from the terms of the Plan. The Fund’s total return performance on net asset value is presented in its financial highlights table. The Board may amend, suspend or terminate the Fund’s Plan without prior notice if it deems such action to be in the best interest of the Fund or its shareholders. The suspension or termination of the Plan could have the effect of creating a trading discount (if the Fund’s stock is trading at or above net asset value) or widening an existing trading discount. The Fund is subject to risks that could have an adverse impact on its ability to maintain level distributions. Examples of potential risks include, but are not limited to, economic downturns impacting the markets, investments in foreign securities, foreign currency fluctuations and changes in the Code. Please refer to the Fund’s prospectus for a more complete description of its risks.

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May 31, 2016 (Unaudited)

Dear Investor,

The Stone Harbor Emerging Markets Income Fund (“EDF” or “Fund”) seeks to maximize total return, which consists of income on its investments and capital appreciation. The Fund invests in fixed income securities and related instruments that are economically tied to emerging markets (EM) countries, including sovereign external debt, local currency debt (non U.S. dollar), and corporate debt from EM issuers.

Our investment thesis is straightforward — despite periods of high market volatility, we believe EM debt markets continue to offer attractive investment opportunities for total return investors. In contrast with many advanced economies, most EM countries maintain prudent debt levels and substantially lower fiscal deficits, in our opinion. Furthermore, in this era of historically low interest rates and quantitative easing in the developed world, we believe the majority of EM countries are pursuing orthodox monetary policies. In addition, we believe EM debt still offers higher yields than advanced economy debt, even though EMs have better fundamentals in most cases, based on our analysis.

We believe that a key advantage we have in managing EDF is the latitude to adjust the risk in the portfolio based on our fundamental economic and credit views, as well as our assessment of the macroeconomic environment. Our investment process focuses on allocating to three distinct sectors of EM debt — hard currency sovereigns, local currency sovereigns and corporates — each of which tend to behave differently in various macroeconomic environments.

In addition, we can vary the amount of leverage used by the Fund depending on our confidence in our return expectations. In general, we employ leverage to seek higher returns. However, when uncertainty rises, and with it greater perceived risks, we can also reduce leverage so that the Fund has less exposure to EM risk.

Performance Review

The total return on net asset value (NAV) of EDF for the six months ending May 31, 2016 was 6.00% (net of expenses). For the same period, the Fund maintained an average discount to its NAV of 3.39%⁽¹⁾. Market tracking indices for the three sectors of EM debt⁽²⁾ — external sovereign debt, local currency debt, and corporate debt — delivered total returns of 5.22%, 5.28% and 4.60%, respectively, during the reporting period. December, the first month of the reporting period, generated significantly negative returns as the market reacted to the downgrade of Brazil by the rating agency Fitch. Brazil was downgraded from BBB to BB+ by Fitch in a move that followed a similar downgrade in September by S&P. This second downgrade triggered a decline of more than 5% for Brazil’s hard currency debt in December. All three market segments stabilized in January and generated strong positive returns in the February – April period. This market rebound occurred amid rebounding oil and commodity prices and a reduction of concerns about a China devaluation and a US recession.

Our allocations to hard currency sovereign debt, local currency sovereign debt, and corporate debt all generated positive returns during the period. Our overweight positions in the hard currency debt of Argentina, Ecuador and Angola, the local currency debt of South Africa and select corporate debt in Brazil and Russia were all strong positive contributors to our returns during the period.

As we mentioned, asset allocation is an important decision in the management of the Fund. Our allocation to local currency denominated sovereign debt ranged between 25% and 38% during the period with our average monthly allocation approximately 33%. This allocation is below our long term allocation to local currency debt. We continue to believe that local currency sovereign debt should provide the highest risk adjusted total returns in the EM universe.

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In our view, those returns will, however, likely be accompanied by the highest level of volatility. Local currency returns are particularly sensitive to assumptions about economic growth, in our opinion. When we have greater visibility of accelerating growth in EM countries, we currently expect that we will increase our allocation to local currency sovereign debt.

Throughout the reporting period, leverage consisted primarily of short term reverse repurchase agreements through which the Fund borrowed funds by selling securities under the obligation to repurchase them at a later date at a fixed price. The implied borrowing costs of the repurchase agreements averaged approximately 1.11% per annum. The Fund's level of gross leverage reached a maximum of 29.9% of total assets on January 20, 2016 and a minimum of 18.5% on May 26, 2016. By the end of the reporting period, leverage was 18.5%. The Fund's management team varied borrowing levels to reflect the team's outlook on EM risk, increasing borrowings when it felt opportunities had improved and reducing borrowings when, in the team's judgment, macroeconomic risks had risen.

The Fund uses various derivative instruments to implement its strategies. These derivatives are utilized to manage the Fund's credit risk, interest rate risk and foreign exchange risk. These derivative positions may increase or decrease the Fund's exposure to these risks. At the end of the reporting period the Fund had net exposure to these derivatives of about \$880,000. Over the course of the reporting period these derivative positions generated net realized losses of approximately \$1.5 million and \$1.7 million in unrealized appreciation for a net increase in operations of \$237,000.

2 www.shiplpcef.com

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Market Review and Outlook

In our view, the total returns for EM indices for the reporting period were driven by a combination of events in developed markets, country and company specific news in some emerging markets and valuations. Macroeconomic developments in advanced economies are important inputs into our assessment of the outlook for EM debt returns. The impact of developments outside the emerging markets on emerging market valuations has been a critical variable in the performance of emerging market assets since the end of the 2008 financial crisis. These factors, including weaker than expected economic growth, a strong US dollar and falling oil prices weighed on the Fund's performance in recent years. In the six month reporting period, some of these trends reversed in a way that contributed to the Fund's returns. Specifically, the US dollar weakened and energy prices appreciated during the current calendar year.

While these influences from advanced economies will continue to impact all markets, our fundamental views on emerging markets are unchanged. We continue to forecast that many EM country growth rates should improve in the next 12 to 18 months. In our view, expectations for improved U.S. growth, together with the depreciation of emerging market currencies over the past three years will support EM growth in the months ahead. Government deficits in most EM countries remain at healthy levels, particularly compared to the U.S., Japan and many developed European countries. We believe investors will again focus on the relative strengths of EM fundamentals.

In the past, we have detailed some of the key risks to our constructive outlook for emerging market debt. Today, those risks seem to emanate from both developed and emerging market countries. We believe potential additional increases in U.S. interest rates, the ongoing political and religious strife in the Middle East, below trend growth in Europe and the potential for China's growth rate to fall short of expectations are all potential risks. However, our base case return scenarios for EM debt over the coming year remain positive. Our view derives from a disciplined investment process in which we review the ability and willingness of borrowers to repay their debts. We also assess whether current prices of bonds reflect adequate compensation for risk within the current macroeconomic environment. Based on this process, we continue to believe that EM debt will generate the highest returns in the fixed income universe.

Other general risks of the Fund relate to our use of leverage and also to the longer term prospects for a rise in global interest rates. Stone Harbor attempts to mitigate the risk of loss of principal due to the possibility of a general rise in global interest rates through our investment process that determines sector and country allocations, as well as security selection. We seek to reduce interest rate sensitivity during periods of rising interest rates. Notwithstanding these efforts, rising interest rates would increase the Fund's cost of leverage and could also decrease the value of its portfolio securities, adversely affecting Fund performance.

We continue to believe that investing in EDF may offer an attractive means of capitalizing on further improvements in credit quality in EM. We thank you for your confidence in our ability to invest in these volatile markets and look forward to reporting on EDF in six months.

Sincerely,

Thomas K. Flanagan
Chairman of the Board of Trustees

(1) Performance on a market value basis, or at market price, will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods, returns at market price can also be

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influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund dividends.

⁽²⁾ Market Tracking Indices include External Sovereign debt: J.P. Morgan EMBI Global Diversified; Local Currency debt: J.P. Morgan GBI-EM Global Diversified; and Corporate debt: J.P. Morgan CEMBI Broad Diversified.

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Stone Harbor Emerging Markets Income Fund Summary of Portfolio Holdings

May 31, 2016 (Unaudited)

Fund Details

| | |
|--|---------|
| Market Price | \$13.67 |
| Net Asset Value (NAV) | \$14.15 |
| Premium/(Discount) | (3.39%) |
| Current Distribution Rate ⁽¹⁾ | 15.80% |
| Net Assets (in millions) | \$223 |

Country Allocation

(as a % of Total Net Assets)⁽³⁾

| Country Breakdown | | % |
|-----------------------|-------|---|
| Brazil | 15.64 | % |
| Mexico | 14.97 | % |
| Argentina | 8.62 | % |
| Russia | 7.89 | % |
| Colombia | 6.76 | % |
| Ivory Coast | 6.12 | % |
| El Salvador | 4.48 | % |
| Ecuador | 4.33 | % |
| Iraq | 4.19 | % |
| Chile (Includes ETF) | 4.00 | % |
| Turkey (Includes ETF) | 3.95 | % |
| South Africa | 3.95 | % |
| Angola | 2.93 | % |
| Venezuela | 2.85 | % |
| Dominican Republic | 2.70 | % |
| Costa Rica | 2.44 | % |
| Kazakhstan | 2.11 | % |
| Kenya | 1.92 | % |
| Ukraine | 1.89 | % |
| Zambia | 1.83 | % |
| Gabon | 1.41 | % |
| Ghana | 1.27 | % |
| Peru | 0.93 | % |
| Guatemala | 0.84 | % |
| India | 0.58 | % |

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| | | |
|---------------------------------------|--------|---|
| Serbia | 0.50 | % |
| Ethiopia | 0.48 | % |
| Sri Lanka | 0.37 | % |
| Jamaica | 0.32 | % |
| Nigeria | 0.32 | % |
| Algeria | 0.30 | % |
| Panama | 0.25 | % |
| Indonesia | 0.22 | % |
| Macau | 0.11 | % |
| Total | 111.47 | % |
| Short Term Investments | 10.05 | % |
| Other Assets in Excess of Liabilities | -21.52 | % |
| Total Net Assets | 100.00 | % |

Security Type Allocation⁽²⁾

Sector Allocation⁽²⁾

| | |
|------------------------------------|--------|
| Sovereign Local | 25.49% |
| Sovereign External | 42.21% |
| Corporate | 20.68% |
| Equity | 4.05% |
| Cash & Equivalents/U.S. Treasuries | 7.57% |

Regional Breakdown⁽²⁾

| | |
|------------------------------------|--------|
| Latin America | 57.22% |
| Africa | 16.92% |
| Europe | 13.50% |
| Middle East | 3.72% |
| Asia | 1.07% |
| Cash & Equivalents/U.S. Treasuries | 7.57% |

Sovereign Local

Currency Breakdown⁽²⁾

| | |
|--------------------|-------|
| Mexican Peso | 7.37% |
| Brazilian Real | 5.46% |
| Russian Ruble | 4.31% |
| Colombian Peso | 3.99% |
| South African Rand | 3.22% |

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| | |
|------------------|--------|
| Turkish New Lira | 1.14% |
| Total | 25.49% |

Current Distribution Rate is based on the Fund's current annualized monthly distribution divided by the Fund's (1)current market price. The Fund's monthly distributions to its shareholders may be comprised of ordinary income, net realized capital gains and return of capital in order to maintain a level distribution.

Based on managed assets and investment manager's sector classifications including derivative exposure. For (2) purposes of this example, managed assets include total net assets plus any borrowings attributed to the use of reverse repurchase agreements and the notional values of credit default swaps and interest rate swaps as described on page 12.

(3) Country refers to country of primary risk exposure, as determined by Stone Harbor. In certain instances, a security's country of incorporation may be different from its country of risk.

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Stone Harbor Emerging Markets Income Fund Growth of \$10,000 Investment

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Comparison of Change in Value of \$10,000 Investment in Stone Harbor Emerging Markets Income Fund and the J.P. Morgan Emerging Markets Bond Indices: EMBI Global Diversified, CEMBI Broad Diversified, and GBI-EM Global Diversified (Please refer to the Additional Information section for detailed benchmark descriptions).

Total Returns as of May 31, 2016 (Inception Date December 22, 2010)

| | Average Annual Return | | | | |
|--|-----------------------|----------|------------|-----------|-----------------|
| | 6 Month | One Year | Three Year | Five Year | Since Inception |
| Stone Harbor Emerging Markets Income Fund – NAV | 6.00% | -0.92% | -2.63% | 0.45% | 1.68% |
| Stone Harbor Emerging Markets Income Fund – Market Price | 15.86% | -4.22% | -3.03% | -0.40% | 0.19% |
| J.P. Morgan CEMBI Broad Diversified | 4.60% | 2.52% | 3.74% | 4.92% | 5.23% |
| J.P. Morgan EMBI Global Diversified | 5.22% | 4.55% | 4.25% | 5.94% | 6.23% |
| J.P. Morgan GBI-EM Global Diversified | 5.28% | -4.86% | -6.71% | -3.26% | -1.57% |

Past performance is no guarantee of future results. Current performance may be lower or higher than the performance shown. Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends, capital gain and return of capital distributions, if any, have been reinvested and includes all fee waivers and expense reimbursements. Total return does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or broker commissions or sales charges in connection with the purchase or sale of Fund shares. Investment return and principal value will vary, and shares, when sold, may be worth more or less than their original cost. Total returns for a period of less than one year are not annualized. Index returns do not include the effects of sales charges or management fees. It is not possible to invest directly in an index.

Performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a onetime public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

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Stone Harbor Emerging Markets Income Fund Statement of Investments

May 31, 2016 (Unaudited)

| | Reference Rate | Currency | Rate | Maturity Date | Principal Amount/ Shares* | Value Expressed (in USD) |
|-----------------------------------|-------------------|----------|-------|------------------|---------------------------------|--------------------------------|
| SOVEREIGN DEBT | | | | | | |
| OBLIGATIONS 68.55% | | | | | | |
| Angola 2.03% | | | | | | |
| Republic of Angola: | | | | | | |
| | | USD | 7.00 | % 08/16/19 | 759,688 | \$772,982 (1) |
| | | USD | 9.50 | % 11/12/25 | 1,180,000 | 1,149,025 (1) |
| | | USD | 9.50 | % 11/12/25 | 2,689,000 | 2,618,414 (2)(3) |
| | | | | | | 4,540,421 |
| Argentina 7.78% | | | | | | |
| Republic of Argentina: | | | | | | |
| | | EUR | 7.82 | % 12/31/33 | 869,810 | 977,473 |
| | | EUR | 7.82 | % 12/31/33 | 4,034,442 | 4,567,478 |
| | | USD | 8.28 | % 12/31/33 | 159,832 | 174,617 |
| | | USD | 8.28 | % 12/31/33 | 4,570,644 | 4,930,582 |
| | | EUR | 0.00 | % 12/15/35 | 20,559,307 | 2,339,001 (4) |
| | | EUR | 2.26 | % 12/31/38 | 509,052 | 346,210 (5) |
| | | USD | 2.50 | % 12/31/38 | 6,353,000 | 4,056,391 (5) |
| | | | | | | 17,391,752 |
| Brazil 9.59% | | | | | | |
| Brazil Letras do Tesouro Nacional | | | | | | |
| Republic of Brazil: | | | | | | |
| | | BRL | 0.00 | % 01/01/18 | 65,755,000 | 15,023,060 (6) |
| | | USD | 6.00 | % 04/07/26 | 5,037,000 | 5,112,555 |
| | | USD | 8.25 | % 01/20/34 | 866,000 | 969,920 |
| | | USD | 7.13 | % 01/20/37 | 329,000 | 333,935 |
| | | | | | | 21,439,470 |
| Colombia 4.30% | | | | | | |
| Bogota Distrito Capital | | | | | | |
| Republic of Colombia: | | | | | | |
| | | COP | 9.75 | % 07/26/28 | 8,000,000,000 | 2,643,546 (1) |
| | | COP | 10.00 | % 07/24/24 | 11,600,000,000 | 4,233,118 |
| | | COP | 7.75 | % 09/18/30 | 8,800,000,000 | 2,732,655 |
| | | | | | | 9,609,319 |
| Costa Rica 2.44% | | | | | | |
| Republic of Costa Rica: | | | | | | |
| | | USD | 4.25 | % 01/26/23 | 4,395,000 | 4,043,400 (1) |
| | | USD | 4.38 | % 04/30/25 | 1,130,000 | 1,009,937 (2) |
| | | USD | 7.00 | % 04/04/44 | 431,000 | 395,443 (2) |
| | | | | | | 5,448,780 |
| Dominican Republic 2.70% | | | | | | |
| Dominican Republic | | | | | | |
| | | USD | 6.88 | % 01/29/26 | 5,600,000 | 6,045,200 (1) |

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El Salvador 4.48%

Republic of El Salvador:

| | | | | | |
|-----|------|------------|-----------|------------|--------|
| USD | 7.75 | % 01/24/23 | 829,000 | 816,565 | (1)(3) |
| USD | 8.25 | % 04/10/32 | 4,108,000 | 3,862,547 | (1)(3) |
| USD | 7.65 | % 06/15/35 | 3,735,000 | 3,235,444 | (1)(3) |
| USD | 7.63 | % 02/01/41 | 2,450,000 | 2,094,750 | (1)(3) |
| | | | | 10,009,306 | |

Ethiopia 0.48%

Federal Democratic Republic of
Ethiopia

| | | | | | |
|-----|------|------------|-----------|-----------|-----|
| USD | 6.63 | % 12/11/24 | 1,178,000 | 1,076,398 | (2) |
|-----|------|------------|-----------|-----------|-----|

See Notes to Financial Statements.

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Stone Harbor Emerging Markets Income Fund Statement of Investments

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| | Reference Rate | Currency | Rate | Maturity Date | Principal Amount/ Shares* | Value Expressed (in USD) |
|--------------------|----------------|----------|------|---------------|---------------------------------|--------------------------------|
| Gabon | 1.41% | | | | | |
| Republic of Gabon: | | | | | | |