

Stone Harbor Emerging Markets Income Fund  
Form N-CSR  
February 07, 2013  
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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: 811-22473

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.

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1211 Avenue of the Americas

New York, NY 10036

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

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Date of fiscal year end: November 30

Date of reporting period: December 1, 2011 November 30, 2012

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Item 1. **Report to Stockholders.**

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**Distribution Policy**

**November 30, 2012**

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 distribute all 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). If sufficient investment income is not available on a monthly basis, the Fund will distribute long-term capital gains and/or return of 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.

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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**Stone Harbor Emerging Markets Income Fund**

**Shareholder Letter**

November 30, 2012 (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. In our view, strong returns have resulted in these sectors in 2012 for several reasons. Most importantly, fundamental developments including growth rates and balance sheets-- in emerging markets remained significantly stronger than in many advanced economies. In addition, debt from many EMs had valuation advantages over developed market fixed income investments. Higher yields and strong historical returns drew a record amount of new investments in EM debt.

Assessing the market impact of political events in advanced European economies posed a key challenge for EM early this year. We believe we performed reasonably well in this arena, though EDF and most risk assets suffered as it became apparent to the markets in May that the fate of the Euro and European growth rested in the hands of policy makers and the voting public in Greece, Spain, Italy, Germany and France. EM debt also benefitted from external events, in particular from actions of central banks across the globe, including the U.S. Federal Reserve Bank and the European Central Bank, which maintained easy monetary policies, helping to reduce fears of economic recession.

The extent to which EM countries were able to grow in a low growth environment was a key concern this year. We remained more optimistic for the near term growth prospects for Asia, Latin America, Africa and the Middle East and much less so for Eastern Europe where the effects of an ongoing slowdown in the European Monetary Union were most acute. While China's potential growth rate fell to around 7-8%, down from 10% for the past decade, we saw strong reasons to believe that it will not slow further, at least near term. Taking a long term view, we believe that EM growth potential remains high. We believe EDF is positioned to capitalize on this view.

**Performance Review**

The total return on net asset value (NAV) of EDF for the twelve months ending November 30, 2012 was 17.71%, net of all fees. On a market value basis<sup>1</sup>, the Fund's total return was 21.22%. For the same period, the Fund maintained an average premium to its NAV of 3.44%. The Fund's exposure to hard currency sovereign debt was the most important contributor to Fund performance for the year, followed by local currency debt and corporate bonds. The Fund's NAV performance exceeded market tracking indices throughout the year, ending the reporting period with an excess return over the sovereign, EM corporate, and local currency benchmarks of 17.93%, 14.96%, and 12.61%, respectively. After a weak start in December 2011, in which EDF's NAV dropped, the Fund's cumulative total return on NAV began rising. In May, however, a sharp decline in market sentiment not deterioration in credit quality, in our view came in response to rising concerns about Europe's debt crisis and fears of a slowdown in global growth. EDF's management team shifted allocations to favor external debt in order to seek to take advantage of strong technical conditions in the markets for U.S. dollar denominated sovereign debt from emerging markets and reduced exposure to local currency bonds. This repositioning was the most important contributor to the Fund's outperformance relative to the EM indices.

On balance, these allocations provided downside protection for the portfolio during May when market sentiment soured, but they also performed well throughout the rest of the year as credit spreads tightened relative to U.S. Treasuries, resulting in positive absolute returns. Allocations to sovereign bonds in Venezuela, Mexico and Russia and to corporate bonds in Mexico and Russia were the largest positive contributors to performance. However, not all of the positions in US dollar-denominated debt performed as we had anticipated. Our allocation to Argentina sovereign bonds and to Brazilian corporate debt, for example, detracted from EDF's overall returns.

We also employed leverage to seek higher returns. During the reporting period, leverage consisted primarily of short-term reverse repurchase agreements through which the Fund borrowed funds by lending 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 0.65% per annum. The level of gross leverage reached a maximum of 30.8% of total assets on August 30th and a minimum of 17.8% in January. By the end of the reporting period, leverage was 26.6%. Net leverage (gross leverage less cash held) remained lower than gross leverage throughout the period. The Fund's management team varied borrowing levels to reflect the team's outlook on EM debt, increasing borrowings when it felt opportunities had improved and reducing borrowings when, in the team's judgment, macroeconomic risks had risen.

**Market Review and Outlook**

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Total returns for EM indices for the reporting period reflected strong performance of external sovereign bonds, local currency debt and corporate bonds. Market tracking indices<sup>3</sup> for each of these EM sectors delivered total returns of 17.93%, 14.96% and 12.61%, respectively. In external sovereign debt, spread compression relative to U.S. Treasuries accounted for most of the total return. Yields of sovereign U.S. dollar denominated debt narrowed relative to U.S. Treasuries, in our view, as global investors increased exposure to higher yielding emerging markets at the expense of bonds from developed countries. An important factor in this reallocation, we believe, was that credit quality in emerging markets remained on a better trajectory than in many advanced economies. During the year, EM countries continued to benefit from upgrades by major credit rating agencies, with four countries improving to investment grade. Corporate debt yield spreads also narrowed relative to U.S. bonds for similar reasons, in our view. In local currency debt, the key factors driving returns were yield and capital appreciation from falling interest rates. Total returns for the index due to currency movements during this period were modestly positive.



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## Stone Harbor Emerging Markets Income Fund

## Shareholder Letter

November 30, 2012 (Unaudited)

Technical factors remained supportive. According to JP Morgan, new allocations to EM debt from institutional fixed income investors amounted to over \$80 billion over the 12-month period ending November 30, 2012. Of this amount, over 80% was allocated to U.S. dollar-denominated sovereign and corporate bonds; the remainder went to local currency investments. In addition, many EMs took advantage of strong markets to fulfill a majority of 2012 financing needs. The remaining calendar of debt issuance, as a result, remained manageable, in our view, particularly in comparison to the heavy financing needs of advanced economies including Spain, Italy, Japan, the United Kingdom and the United States.

The growth outlook has slowed in most EM countries, driven by past monetary tightening and weaker growth in developed markets. Inflation is starting to decline and we expect that to continue as commodity prices have trended gradually lower and economic activity is slowing. However, EM currency weakness has been reducing disinflation and is preventing some central banks from lowering interest rates. In most EMs, central banks have an easing bias, which we believe will persist. Fiscal positions remain strong and little fiscal adjustment is needed in 2013, in our view. From a regional perspective, we believe Latin America and Asia are best positioned to weather the European sovereign crisis, with Eastern Europe much more exposed to declining growth.

In the past, we have detailed some of the key risks to our relatively benign outlook for emerging market debt. Most of those risks remain in place, including the possibility that the U.S. slips back into recession if the U.S. Congress and the Obama administration are unable to resolve a pending fiscal crisis. In all sectors of the EM bond markets, yields have fallen to unprecedented low levels. This fact raises our level of concern over the riskiness of EM assets in general. However, our base case return scenarios for EM debt and 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, in our view, an adequate measure of compensation for risk within the current macroeconomic environment. Based on this process, we remain wary of the declining growth prospects in advanced economies, but still see more opportunity for investing in EM debt.

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. Though not our base case, Stone Harbor attempts to mitigate the risk of loss of principal due to the possibility of a general rise in global interest rates through its investment processes that determine 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 offers an attractive means of capitalizing on further improvements in credit quality in EM. We thank you for your trust in our ability to maneuver these difficult markets and look forward to reporting on EDF in six months.

Sincerely,

Thomas K. Flanagan

Chairman of the Board of Trustees

<sup>1</sup> 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 overtime, 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.

<sup>2</sup> The reporting period is defined as December 1, 2011 to November 30, 2012.

<sup>3</sup> JP Morgan emerging markets debt benchmarks are used throughout as being representative of market returns. Emerging markets hard currency sovereign external debt is represented by JP Morgan Emerging Markets Bond Index (EMBI) Global Diversified, which tracks total returns for U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. Emerging markets corporate debt is represented by JPMorgan Corporate Emerging Markets Bond Index (CEMBI) Broad Diversified. The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an Investable universe of corporate bonds.

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*Both indices are also available in Diversified version. The JPMorgan CEMBI Broad Diversified limits the current face amount allocations of the bonds. Both indices are also available in outstanding countries with larger debt stocks. Qualifying corporate bonds have a face amount greater than USD 300 million, maturity greater than 5 years, verifiable prices and cash flows, and from countries within Asia ex-Japan, Latin America, Eastern Europe, Middle East, and Africa. Emerging markets local currency debt is represented by JP Morgan Government Bond Index Emerging Markets (GBI-EM) Global Diversified, which consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which, international investors can gain exposure. The weightings among the countries are more evenly distributed within this index. Although not expected to be a principal investment tool, the Portfolio may make use of derivative securities (including futures and options on securities, securities indices or currencies, options on futures, forward currency contracts, and interest rate, currency or credit default) for the purposes of reducing risk and/or obtaining efficient investment exposure.*

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## Stone Harbor Emerging Markets

## Income Fund

## Summary of Portfolio Holdings

November 30, 2012 (Unaudited)

**Fund Details**

|  |         |
|--|---------|
| Market Price                           | \$24.70 |
| Net Asset Value (NAV)                  | \$23.61 |
| Premium/(Discount)                     | 4.62%   |
| Current Distribution Rate <sup>1</sup> | 8.74%   |
| Net Assets (\$ in millions)            | \$371   |

**Country Allocation**

(as a % of total net assets)

| <b>Country Breakdown</b>                     | <b>% of TNA</b> |
|--|-----------------|
| Russia                                       | 19.52%          |
| Mexico                                       | 17.24%          |
| Venezuela                                    | 14.53%          |
| Brazil                                       | 11.84%          |
| Argentina                                    | 9.85%           |
| Ukraine                                      | 7.25%           |
| Turkey                                       | 7.06%           |
| South Africa                                 | 6.85%           |
| Iraq   | 5.37%           |
| Hungary                                      | 5.18%           |
| Indonesia                                    | 2.45%           |
| Kazakhstan                                   | 2.22%           |
| China  | 2.14%           |
| Malaysia                                     | 2.09%           |
| Nigeria                                      | 1.15%           |
| Peru   | 1.13%           |
| United Arab Emirates                         | 1.00%           |
| Romania                                      | 0.82%           |
| Croatia                                      | 0.81%           |
| Slovakia                                     | 0.81%           |
| Dominican Republic                           | 0.76%           |
| Colombia                                     | 0.72%           |
| Lithuania                                    | 0.69%           |
| Jamaica                                      | 0.57%           |
| Qatar  | 0.47%           |
| Ghana  | 0.34%           |
| Mongolia                                     | 0.34%           |
| Panama                                       | 0.28%           |
| India  | 0.27%           |
| Azerbaijan                                   | 0.15%           |
| Chile  | 0.14%           |
| El Salvador                                  | 0.11%           |
| <b>Total</b>                                 | <b>124.15%</b>  |
| <b>Money Market Mutual Funds</b>             | <b>0.11%</b>    |
| <b>Liabilities in Excess of Other Assets</b> | <b>-24.26%</b>  |
| <b>Total Net Assets</b>                      | <b>100.00%</b>  |

**Sector Allocation<sup>2</sup>**

|                    |       |
|--------------------|-------|
| Sovereign Local    | 38.3% |
| Sovereign External | 36.7% |
| Corporate          | 19.6% |
| Net Cash           | 5.4%  |

**Regional**

**Breakdown<sup>2</sup>**

|               |        |
|---------------|--------|
| Latin America | 43.50% |
| Europe        | 34.05% |
| Asia          | 6.28%  |
| Africa        | 5.54%  |
| Middle East   | 5.19%  |
| Net Cash      | 5.44%  |

**Sovereign Local**

**Currency Breakdown<sup>2</sup>**

|                    |              |
|--------------------|--------------|
| Argentinian Peso   | 0.1%         |
| Brazilian Real     | 6.9%         |
| Colombian Peso     | 0.4%         |
| Mexican Peso       | 9.5%         |
| Malaysian Ringgit  | 1.5%         |
| Romanian New Leu   | 0.4%         |
| Russian Ruble      | 11.4%        |
| South African Rand | 4.5%         |
| Turkish New Lira   | 3.6%         |
| <b>Total</b>       | <b>38.3%</b> |

<sup>1</sup> Current Distribution Rate is based on the Fund's current annualized monthly distribution divided by the Fund's current market price. The Fund's monthly distributions to its shareholders may be comprised of ordinary income, net realized capital gains and, if at the end of the calendar year the Fund's cumulative net ordinary income and net realized gains are less than the amount of the Fund's distributions, a return of capital for tax purposes.

<sup>2</sup> Based on managed assets and investment manager's sector classifications including derivative exposure. For purposes of this example, managed assets include total net assets plus any borrowings attributed to the use of reverse repurchase agreements.

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# Stone Harbor Emerging Markets Income Fund

## Growth of \$10,000 Investment

November 30, 2012 (Unaudited)

Comparison of Change in Value of \$10,000 Investment in Stone Harbor Emerging Markets Income Fund and the JP Morgan Emerging Market Bond Indices: EMBI Global Diversified, CEMBI Broad Diversified, and GBI-EM Global Diversified.

The JP Morgan Emerging Market Bond Global Diversified Index is a uniquely-weighted version of the EMBI Global, which tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities such as Brady bonds, loans and Eurobonds. Currently, the EMBI Global covers 196 instruments across 48 countries. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global.

### Average Annual Total Returns as of November 30, 2012

|   |              | One Year | Since Inception | Inception Date |
|---|--------------|----------|-----------------|----------------|
| Stone Harbor Emerging Markets Income Fund | NAV          | 17.71%   | 8.51%           | 12/22/10       |
| Stone Harbor Emerging Markets Income Fund | Market Price | 21.22%   | 8.47%           |                |
| JP Morgan EMBI Global Diversified         |              | 17.93%   | 12.44%          |                |
| JP Morgan CEMBI Broad Diversified         |              | 14.96%   | 8.37%           |                |
| JP Morgan GBI-EM Global Diversified       |              | 12.61%   | 7.11%           |                |

**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

Report of Independent Registered

Income Fund

Public Accounting Firm

To the Board of Trustees and Shareholders of Stone Harbor Emerging Markets Income Fund:

We have audited the accompanying statement of assets and liabilities of Stone Harbor Emerging Markets Income Fund (the Fund), including the statement of investments, as of November 30, 2012, and the related statements of operations and cash flows for the year then ended, and the statements of changes in net assets and the financial highlights for the year then ended and the period December 21, 2010 (inception) to November 30, 2011. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2012, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Stone Harbor Emerging Markets Income Fund as of November 30, 2012, the results of its operations and its cash flows for the year then ended, and the changes in its net assets and the financial highlights for the year then ended and the period December 21, 2010 (inception) to November 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Denver, Colorado

January 29, 2013

**Table of Contents****Stone Harbor Emerging Markets Income Fund****Statement of Investments**

November 30, 2012

|   | Currency | Rate    | Maturity<br>Date | Principal<br>Amount* | Market Value<br>(Expressed in U.S. \$) |
|---|----------|---------|------------------|----------------------|--|
| <b>SOVEREIGN DEBT OBLIGATIONS - 63.62%</b>    |          |         |                  |                      |  |
| <b>Argentina - 8.33%</b>                      |          |         |                  |                      |  |
| <i>City of Buenos Aires Argentina</i>         |          |         |                  |                      |  |
|   | USD      | 9.950%  | 03/01/2017       | 1,249,000            | \$ 1,061,650 <sup>(1)(2)</sup>         |
| <i>Republic of Argentina:</i>                 |          |         |                  |                      |  |
|   | EUR      | 6.734%  | 12/31/2033       | 20,065,716           | 14,255,111 <sup>(1)</sup>              |
|   | EUR      | 6.742%  | 12/31/2033       | 21,777,839           | 15,577,651 <sup>(1)</sup>              |
|   |          |         |                  |                      | 30,894,412                             |
| <b>Brazil - 5.24%</b>                         |          |         |                  |                      |  |
| <i>Nota Do Tesouro Nacional:</i>              |          |         |                  |                      |  |
|   | BRL      | 10.000% | 01/01/2014       | 1,749,000            | 840,616                                |
|   | BRL      | 6.000%  | 05/15/2015       | 6,601                | 3,382                                  |
|   | BRL      | 6.000%  | 08/15/2020       | 33,747,158           | 18,604,036                             |
|   |          |         |                  |                      | 19,448,034                             |
| <b>Croatia - 0.81%</b>                        |          |         |                  |                      |  |
| <i>Croatian Government:</i>                   |          |         |                  |                      |  |
|   | USD      | 6.250%  | 04/27/2017       | 503,000              | 554,557 <sup>(2)</sup>                 |
|   | USD      | 6.375%  | 03/24/2021       | 2,141,000            | 2,451,445 <sup>(1)(2)</sup>            |
|   |          |         |                  |                      | 3,006,002                              |
| <b>Dominican Republic - 0.38%</b>             |          |         |                  |                      |  |
| <i>Dominican Republic International Bond:</i> |          |         |                  |                      |  |
|   | USD      | 9.040%  | 01/23/2018       | 738,852              | 842,292 <sup>(3)</sup>                 |
|   | USD      | 7.500%  | 05/06/2021       | 498,000              | 582,660 <sup>(3)</sup>                 |
|   |          |         |                  |                      | 1,424,952                              |
| <b>El Salvador - 0.11%</b>                    |          |         |                  |                      |  |
| <i>Republic of El Salvador</i>                |          |         |                  |                      |  |
|   | USD      | 7.750%  | 01/24/2023       | 334,000              | 394,120 <sup>(3)</sup>                 |
| <b>Ghana - 0.34%</b>                          |          |         |                  |                      |  |
| <i>Republic of Ghana</i>                      |          |         |                  |                      |  |
|   | USD      | 8.500%  | 10/04/2017       | 1,077,000            | 1,241,243 <sup>(1)(3)</sup>            |
| <b>Hungary - 5.18%</b>                        |          |         |                  |                      |  |
| <i>Republic of Hungary:</i>                   |          |         |                  |                      |  |
|   | EUR      | 4.500%  | 01/29/2014       | 746,000              | 984,758 <sup>(1)</sup>                 |
|   | GBP      | 5.500%  | 05/06/2014       | 65,000               | 105,832                                |
|   | GBP      | 5.000%  | 03/30/2016       | 223,000              | 357,459                                |
|   | EUR      | 3.500%  | 07/18/2016       | 307,000              | 384,543                                |
|   | EUR      | 4.375%  | 07/04/2017       | 908,000              | 1,155,060 <sup>(1)</sup>               |

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|     |        |            |           |                          |
|-----|--------|------------|-----------|--------------------------|
| EUR | 5.750% | 06/11/2018 | 287,000   | 381,187                  |
| EUR | 6.000% | 01/11/2019 | 835,000   | 1,115,817 <sup>(1)</sup> |
| USD | 6.250% | 01/29/2020 | 8,000,000 | 8,820,000 <sup>(1)</sup> |
| EUR | 3.875% | 02/24/2020 | 5,000,000 | 5,901,211                |
|     |        |            |           | 19,205,867               |

*See Notes to Financial Statements.*  
Annual Report | November 30, 2012

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November 30, 2012

|                               | Currency | Rate   | Maturity<br>Date | Principal<br>Amount* | Market Value<br>(Expressed in U.S. \$) |
|-------------------------------|----------|--------|------------------|----------------------|--|
| <b>Indonesia - 1.22%</b>      |          |        |                  |                      |  |
| <i>Republic of Indonesia:</i> |          |        |                  |                      |  |
|                               | USD      | 4.875% | 05/05/2021       | 250,000              | \$ 289,063 <sup>(3)</sup>              |
|                               | USD      | 8.500% | 10/12/2035       | 2,629,000            | 4,252,407 <sup>(1)(3)</sup>            |
|                               |          |        |                  |                      | 4,541,470                              |
| <b>Iraq - 0.04%</b>           |          |        |                  |                      |  |
| <i>Republic of Iraq</i>       |          |        |                  |                      |  |
|                               | USD      | 5.800% | 01/15/2028       | 174,000              | 164,213 <sup>(3)</sup>                 |
| <b>Lithuania - 0.69%</b>      |          |        |                  |                      |  |
| <i>Republic of Lithuania:</i> |          |        |                  |                      |  |
|                               | USD      | 7.375% | 02/11/2020       | 180,000              | 232,875 <sup>(3)</sup>                 |
|                               | USD      | 6.125% | 03/09/2021       | 1,894,000            | 2,320,150 <sup>(1)(3)</sup>            |
|                               |          |        |                  |                      | 2,553,025                              |
| <b>Malaysia - 2.09%</b>       |          |        |                  |                      |  |
| <i>Malaysian Government</i>   |          |        |                  |                      |  |
|                               | MYR      | 3.197% | 10/15/2015       | 23,550,000           | 7,764,779                              |
| <b>Mexico - 12.64%</b>        |          |        |                  |                      |  |
| <i>Mexican Bonos:</i>         |          |        |                  |                      |  |
|                               | MXN      | 8.000% | 12/17/2015       | 19,880,000           | 1,672,228                              |
|                               | MXN      | 6.250% | 06/16/2016       | 41,740,000           | 3,364,902                              |
|                               | MXN      | 7.750% | 12/14/2017       | 4,000,000            | 345,938                                |
|                               | MXN      | 8.500% | 12/13/2018       | 105,610,000          | 9,578,221                              |
|                               | MXN      | 6.500% | 06/09/2022       | 200,000,000          | 16,696,846                             |
| <i>Mexican Udibonos</i>       |          |        |                  |                      |  |
|                               | MXN      | 2.500% | 12/10/2020       | 182,477,312          | 15,208,572                             |
|                               |          |        |                  |                      | 46,866,707                             |
| <b>Panama - 0.28%</b>         |          |        |                  |                      |  |
| <i>Republic of Panama:</i>    |          |        |                  |                      |  |
|                               | USD      | 7.125% | 01/29/2026       | 124,000              | 177,010                                |
|                               | USD      | 9.375% | 04/01/2029       | 495,000              | 848,182 <sup>(1)</sup>                 |
|                               |          |        |                  |                      | 1,025,192                              |
| <b>Qatar - 0.47%</b>          |          |        |                  |                      |  |
| <i>State of Qatar:</i>        |          |        |                  |                      |  |
|                               | USD      | 5.250% | 01/20/2020       | 711,000              | 851,423 <sup>(1)(3)</sup>              |
|                               | USD      | 6.400% | 01/20/2040       | 638,000              | 893,200 <sup>(1)(3)</sup>              |
|                               |          |        |                  |                      | 1,744,623                              |

# Edgar Filing: Stone Harbor Emerging Markets Income Fund - Form N-CSR

## Romania - 0.82%

### Romania:

|     |        |            |           |                 |
|-----|--------|------------|-----------|-----------------|
| USD | 6.750% | 02/07/2022 | 370,000   | 438,450 (2)     |
| USD | 6.750% | 02/07/2022 | 2,184,000 | 2,588,040(1)(3) |
|     |        |            |           | 3,026,490       |

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|                                    | Currency | Rate    | Maturity<br>Date | Principal<br>Amount* | Market Value<br>(Expressed in U.S. \$) |
|------------------------------------|----------|---------|------------------|----------------------|--|
| <b>Russia - 2.28%</b>              |          |         |                  |                      |  |
| <i>Russian Federation:</i>         |          |         |                  |                      |  |
|                                    | USD      | 11.000% | 07/24/2018       | 2,041,000            | \$ 3,025,782 <sup>(1)(3)</sup>         |
|                                    | USD      | 4.500%  | 04/04/2022       | 4,800,000            | 5,443,200 <sup>(1)(3)</sup>            |
|                                    |          |         |                  |                      | 8,468,982                              |
| <b>Slovakia - 0.81%</b>            |          |         |                  |                      |  |
| <i>Republic of Slovakia</i>        |          |         |                  |                      |  |
|                                    | USD      | 4.375%  | 05/21/2022       | 2,794,000            | 3,010,479 <sup>(1)(2)</sup>            |
| <b>South Africa - 6.28%</b>        |          |         |                  |                      |  |
| <i>Republic of South Africa:</i>   |          |         |                  |                      |  |
|                                    | ZAR      | 13.500% | 09/15/2015       | 48,530,000           | 6,569,881                              |
|                                    | ZAR      | 8.000%  | 12/21/2018       | 20,260,000           | 2,481,492                              |
|                                    | ZAR      | 7.250%  | 01/15/2020       | 105,100,000          | 12,312,938                             |
|                                    | USD      | 5.500%  | 03/09/2020       | 922,000              | 1,101,790 <sup>(1)</sup>               |
|                                    | ZAR      | 6.750%  | 03/31/2021       | 7,380,000            | 835,007                                |
|                                    |          |         |                  |                      | 23,301,108                             |
| <b>Turkey - 6.38%</b>              |          |         |                  |                      |  |
| <i>Republic of Turkey:</i>         |          |         |                  |                      |  |
|                                    | TRY      | 7.500%  | 09/24/2014       | 31,500,000           | 18,123,480                             |
|                                    | USD      | 7.500%  | 11/07/2019       | 795,000              | 1,036,481 <sup>(1)</sup>               |
|                                    | USD      | 5.625%  | 03/30/2021       | 349,000              | 419,673                                |
|                                    | USD      | 5.125%  | 03/25/2022       | 1,668,000            | 1,951,560 <sup>(1)</sup>               |
|                                    | USD      | 6.250%  | 09/26/2022       | 1,668,000            | 2,112,105 <sup>(1)</sup>               |
|                                    |          |         |                  |                      | 23,643,299                             |
| <b>Ukraine - 0.78%</b>             |          |         |                  |                      |  |
| <i>Financing of Infrastructure</i> |          |         |                  |                      |  |
|                                    | USD      | 9.000%  | 12/07/2017       | 649,000              | 649,000 <sup>(2)</sup>                 |
| <i>Ukraine Government:</i>         |          |         |                  |                      |  |
|                                    | USD      | 6.875%  | 09/23/2015       | 2,000,000            | 2,025,000 <sup>(1)(2)</sup>            |
|                                    | USD      | 7.750%  | 09/23/2020       | 212,000              | 222,070 <sup>(3)</sup>                 |
|                                    |          |         |                  |                      | 2,896,070                              |
| <b>Venezuela - 8.45%</b>           |          |         |                  |                      |  |
| <i>Republic of Venezuela:</i>      |          |         |                  |                      |  |
|                                    | USD      | 8.500%  | 10/08/2014       | 1,457,000            | 1,502,531 <sup>(1)</sup>               |
|                                    | USD      | 13.625% | 08/15/2018       | 518,000              | 569,800 <sup>(3)</sup>                 |
|                                    | USD      | 7.750%  | 10/13/2019       | 8,740,000            | 7,975,250 <sup>(1)(3)</sup>            |
|                                    | USD      | 12.750% | 08/23/2022       | 18,784,700           | 21,062,345 <sup>(1)(3)</sup>           |
|                                    | USD      | 9.250%  | 09/15/2027       | 228,000              | 214,605                                |

31,324,531

**TOTAL SOVEREIGN DEBT OBLIGATIONS**

235,945,598

(Cost \$236,460,482)

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|  | Currency | Rate    | Maturity<br>Date | Principal<br>Amount* | Market Value<br>(Expressed in U.S. \$) |
|--|----------|---------|------------------|----------------------|--|
| <b>BANK LOANS - 0.90%<sup>(4)</sup></b>                |          |         |                  |                      |  |
| <b>Brazil - 0.37%</b>                                  |          |         |                  |                      |  |
| <i>Virgolino de Oliveira - GVO Loan</i>                | USD      | 5.273%  | 03/11/2015       | 1,411,765            | \$ 1,382,369                           |
| <b>Indonesia - 0.53%</b>                               |          |         |                  |                      |  |
| <i>PT Bumi Tranche A</i>                               | USD      | 15.000% | 01/18/2014       | 2,324,754            | 1,092,637                              |
| <i>PT Bumi Tranche B</i>                               | USD      | 15.000% | 01/18/2014       | 1,855,452            | 872,064                                |
|  |          |         |                  |                      | 1,964,701                              |
| <b>TOTAL BANK LOANS</b>                                |          |         |                  |                      | 3,347,070                              |
| (Cost \$5,591,971)                                     |          |         |                  |                      |  |
| <b>CORPORATE BONDS - 32.52%</b>                        |          |         |                  |                      |  |
| <b>Argentina - 0.37%</b>                               |          |         |                  |                      |  |
| <i>Capex SA</i>  | USD      | 10.000% | 03/10/2018       | 1,413,000            | 911,385 <sup>(2)</sup>                 |
| <i>Empresa Distribuidora Y Comercializadora Norte:</i> |          |         |                  |                      |  |
|  | USD      | 9.750%  | 10/25/2022       | 500,000              | 227,500 <sup>(3)</sup>                 |
|  | USD      | 9.750%  | 10/25/2022       | 511,000              | 232,505 <sup>(2)</sup>                 |
|  |          |         |                  |                      | 1,371,390                              |
| <b>Azerbaijan - 0.15%</b>                              |          |         |                  |                      |  |
| <i>State Oil Company</i>                               | USD      | 5.450%  | 02/09/2017       | 513,000              | 561,735                                |
| <b>Brazil - 2.39%</b>                                  |          |         |                  |                      |  |
| <i>Banco do Brasil SA</i>                              | USD      | 3.875%  | 10/10/2022       | 357,000              | 358,785                                |
| <i>BR Malls International Finance Ltd.</i>             | USD      | 8.500%  | 01/21/2049       | 1,018,000            | 1,112,165 <sup>(2)</sup>               |
| <i>General Shopping Finance Ltd.</i>                   | USD      | 10.000% | 11/09/2015       | 1,239,000            | 1,223,512 <sup>(2)</sup>               |
| <i>Globo Comunicacao e Participacoes SA</i>            | USD      | 6.250%  | 07/20/2049       | 557,000              | 602,953 <sup>(3)(5)</sup>              |
| <i>Minerva Luxembourg SA</i>                           | USD      | 12.250% | 02/10/2022       | 330,000              | 387,750 <sup>(2)</sup>                 |
| <i>OGX Austria GmbH</i>                                | USD      | 8.500%  | 06/01/2018       | 4,409,000            | 3,852,364 <sup>(2)</sup>               |
| <i>QGOG Atlantic / Alaskan Rigs Ltd.</i>               | USD      | 5.250%  | 07/30/2018       | 630,418              | 655,635 <sup>(2)</sup>                 |
| <i>Samarco Mineracao SA</i>                            | USD      | 4.125%  | 11/01/2022       | 683,000              | 684,707 <sup>(2)</sup>                 |
|  |          |         |                  |                      | 8,877,871                              |
| <b>Chile - 0.14%</b>                                   |          |         |                  |                      |  |
| <i>CFR International SA</i>                            | USD      | 5.125%  | 12/06/2022       | 500,000              | 509,747 <sup>(2)</sup>                 |

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|   | Currency | Rate    | Maturity<br>Date | Principal<br>Amount* | Market Value<br>(Expressed in U.S. \$) |
|---|----------|---------|------------------|----------------------|--|
| <b>China - 2.14%</b>                                |          |         |                  |                      |  |
| <i>Country Garden Holdings Co. Ltd.</i>             | USD      | 11.125% | 02/23/2018       | 750,000              | \$ 867,187 <sup>(2)</sup>              |
| <i>Evergrande Real Estate Group Ltd.</i>            | USD      | 13.000% | 01/27/2015       | 1,510,000            | 1,642,125 <sup>(3)</sup>               |
| <i>Kaisa Group Holdings Ltd.</i>                    | USD      | 13.500% | 04/28/2015       | 2,012,000            | 2,203,140 <sup>(3)</sup>               |
| <i>MIE Holdings Corp.</i>                           | USD      | 9.750%  | 05/12/2016       | 965,000              | 1,051,850 <sup>(2)</sup>               |
| <i>Sinochem Overseas Capital Co. Ltd.</i>           | USD      | 4.500%  | 11/12/2020       | 366,000              | 397,982 <sup>(3)</sup>                 |
| <i>Sinopec Group Overseas Development 2012 Ltd.</i> | USD      | 4.875%  | 05/17/2042       | 638,000              | 750,448 <sup>(1)(2)</sup>              |
| <i>Texhong Textile Group Ltd.</i>                   | USD      | 7.625%  | 01/19/2016       | 1,000,000            | 1,007,500 <sup>(3)</sup>               |
|   |          |         |                  |                      | 7,920,232                              |
| <b>Colombia - 0.72%</b>                             |          |         |                  |                      |  |
| <i>Bancolombia SA</i>                               | USD      | 5.125%  | 09/11/2022       | 507,000              | 509,535                                |
| <i>Emgesa SA ESP</i>                                | COP      | 8.750%  | 01/25/2021       | 911,000,000          | 574,343 <sup>(2)</sup>                 |
| <i>Empresa de Energia de Bogota SA</i>              | USD      | 6.125%  | 11/10/2021       | 300,000              | 339,000 <sup>(2)</sup>                 |
| <i>Empresas Publicas de Medellin ESP</i>            | COP      | 8.375%  | 02/01/2021       | 1,030,000,000        | 643,807 <sup>(2)</sup>                 |
| <i>Transportadora de Gas Internacional SA ESP</i>   | USD      | 5.700%  | 03/20/2022       | 530,000              | 589,625 <sup>(2)</sup>                 |
|   |          |         |                  |                      | 2,656,310                              |
| <b>Dominican Republic - 0.38%</b>                   |          |         |                  |                      |  |
| <i>Cap Cana SA:</i>                                 |          |         |                  |                      |  |
|   | USD      | 10.000% | 04/30/2016       | 3,341,111            | 501,167 <sup>(3)(6)(7)</sup>           |
|   | USD      | 10.000% | 04/30/2016       | 3,621,970            | 905,492 <sup>(3)(6)(7)</sup>           |
|   |          |         |                  |                      | 1,406,659                              |
| <b>India - 0.27%</b>                                |          |         |                  |                      |  |
| <i>ICICI Bank Ltd.</i>                              | USD      | 6.375%  | 04/30/2022       | 1,000,000            | 1,005,000 <sup>(3)(8)</sup>            |
| <b>Indonesia - 0.70%</b>                            |          |         |                  |                      |  |
| <i>Bakrie Telecom Pte Ltd.</i>                      | USD      | 11.500% | 05/07/2015       | 1,876,000            | 811,370 <sup>(3)</sup>                 |
| <i>Berau Coal Energy Tbk PT</i>                     | USD      | 7.250%  | 03/13/2017       | 500,000              | 463,750 <sup>(3)</sup>                 |
| <i>BLT Finance BV</i>                               | USD      | 7.500%  | 05/15/2014       | 1,098,000            | 197,640 <sup>(3)(6)</sup>              |
| <i>PT Adaro Indonesia</i>                           | USD      | 7.625%  | 10/22/2019       | 1,000,000            | 1,111,250 <sup>(3)</sup>               |
|   |          |         |                  |                      | 2,584,010                              |
| <b>Jamaica - 0.57%</b>                              |          |         |                  |                      |  |
| <i>Digicel Group Ltd.</i>                           | USD      | 8.250%  | 09/30/2020       | 2,000,000            | 2,130,630 <sup>(2)</sup>               |
| <b>Kazakhstan - 2.22%</b>                           |          |         |                  |                      |  |
| <i>BTA Bank JSC</i>                                 | USD      | 10.750% | 07/01/2018       | 2,127,155            | 874,792 <sup>(3)(6)</sup>              |
| <i>KazMunayGas National Co. JSC:</i>                |          |         |                  |                      |  |
|   | USD      | 9.125%  | 07/02/2018       | 309,000              | 409,039 <sup>(2)</sup>                 |

## Edgar Filing: Stone Harbor Emerging Markets Income Fund - Form N-CSR

|                       |     |        |            |           |                             |
|-----------------------|-----|--------|------------|-----------|-----------------------------|
|                       | USD | 9.125% | 07/02/2018 | 795,000   | 1,052,381 <sup>(1)(3)</sup> |
|                       | USD | 7.000% | 05/05/2020 | 1,480,000 | 1,838,900 <sup>(1)(3)</sup> |
|                       | USD | 6.375% | 04/09/2021 | 208,000   | 254,540 <sup>(2)</sup>      |
| <i>Zhaikmunai LLP</i> | USD | 7.125% | 11/13/2019 | 3,700,000 | 3,820,250 <sup>(2)</sup>    |
|                       |     |        |            |           | 8,249,902                   |

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|  | Currency | Rate    | Maturity<br>Date | Principal<br>Amount* | Market Value<br>(Expressed in U.S. \$) |
|--|----------|---------|------------------|----------------------|--|
| <b>Mexico - 4.60%</b>                                      |          |         |                  |                      |  |
| <i>Axtel SAB de CV</i>                                     | USD      | 7.625%  | 02/01/2017       | 70,000               | \$ 30,100 <sup>(2)</sup>               |
| <i>Cemex Finance LLC</i>                                   | USD      | 9.375%  | 10/12/2022       | 2,000,000            | 2,168,130 <sup>(2)</sup>               |
| <i>Cemex SAB de CV:</i>                                    |          |         |                  |                      |  |
|  | USD      | 9.000%  | 01/11/2018       | 679,000              | 716,345 <sup>(3)</sup>                 |
|  | USD      | 9.000%  | 01/11/2018       | 1,041,000            | 1,098,255 <sup>(2)</sup>               |
|  | USD      | 9.500%  | 06/15/2018       | 2,000,000            | 2,157,500 <sup>(2)</sup>               |
| <i>Geo Maquinaria</i>                                      | USD      | 9.625%  | 05/02/2021       | 5,348,880            | 5,068,064 <sup>(2)</sup>               |
| <i>Urbi Desarrollos Urbanos SAB de CV:</i>                 |          |         |                  |                      |  |
|  | USD      | 10.576% | 12/22/2012       | 2,000,000            | 2,019,600 <sup>(2)(8)</sup>            |
|  | USD      | 9.500%  | 01/21/2020       | 1,300,000            | 1,160,250 <sup>(2)</sup>               |
|  | USD      | 9.750%  | 02/03/2022       | 2,970,000            | 2,650,725 <sup>(2)</sup>               |
|  |          |         |                  |                      | 17,068,969                             |
| <b>Mongolia - 0.34%</b>                                    |          |         |                  |                      |  |
| <i>Mongolian Mining Corp.</i>                              | USD      | 8.875%  | 03/29/2017       | 1,209,000            | 1,278,518 <sup>(2)</sup>               |
| <b>Nigeria - 1.15%</b>                                     |          |         |                  |                      |  |
| <i>Afren PLC</i>   | USD      | 10.250% | 04/08/2019       | 3,641,000            | 4,259,970 <sup>(2)</sup>               |
| <b>Peru - 1.13%</b>  |          |         |                  |                      |  |
| <i>Corp. Azucarera del Peru SA</i>                         | USD      | 6.375%  | 08/02/2022       | 352,000              | 379,280 <sup>(2)</sup>                 |
| <i>Inkia Energy Ltd.</i>                                   | USD      | 8.375%  | 04/04/2021       | 3,000,000            | 3,345,000 <sup>(2)</sup>               |
| <i>Volcan Cia Minera SAA</i>                               | USD      | 5.375%  | 02/02/2022       | 431,000              | 468,713 <sup>(2)</sup>                 |
|  |          |         |                  |                      | 4,192,993                              |
| <b>Russia - 2.82%</b>                                      |          |         |                  |                      |  |
| <i>Alfa Bank OJSC Via Alfa Bond Issuance PLC</i>           | USD      | 7.500%  | 09/26/2019       | 2,750,000            | 2,880,625 <sup>(2)</sup>               |
| <i>Evraz Group SA</i>                                      | USD      | 6.750%  | 04/27/2018       | 600,000              | 601,500 <sup>(2)</sup>                 |
| <i>Gazprom Neft OAO Via GPN Capital SA</i>                 | USD      | 4.375%  | 09/19/2022       | 750,000              | 759,375 <sup>(2)</sup>                 |
| <i>Russian Agricultural Bank OJSC Via RSHB Capital SA:</i> |          |         |                  |                      |  |
|  | USD      | 5.298%  | 12/27/2017       | 1,022,000            | 1,084,628 <sup>(1)(3)</sup>            |
|  | USD      | 7.750%  | 05/29/2018       | 3,000,000            | 3,555,000 <sup>(1)(2)</sup>            |
| <i>Severstal OAO Via Steel Capital SA</i>                  | USD      | 5.900%  | 10/17/2022       | 455,000              | 451,587 <sup>(2)</sup>                 |
| <i>VTB Bank OJSC Via VTB Capital SA:</i>                   |          |         |                  |                      |  |
|  | USD      | 6.315%  | 02/22/2018       | 720,000              | 771,300 <sup>(3)</sup>                 |
|  | USD      | 6.250%  | 06/30/2035       | 337,000              | 360,169 <sup>(3)</sup>                 |
|  |          |         |                  |                      | 10,464,184                             |
| <b>South Africa - 0.57%</b>                                |          |         |                  |                      |  |
| <i>Gold Fields Orogen Holding BVI Ltd.</i>                 | USD      | 4.875%  | 10/07/2020       | 2,200,000            | 2,120,250 <sup>(3)</sup>               |



## Edgar Filing: Stone Harbor Emerging Markets Income Fund - Form N-CSR

### Turkey - 0.68%

|                         |     |        |            |           |                          |
|-------------------------|-----|--------|------------|-----------|--------------------------|
| <i>Yüksel Insaat AS</i> | USD | 9.500% | 11/10/2015 | 3,152,000 | 2,505,840 <sub>(3)</sub> |
|-------------------------|-----|--------|------------|-----------|--------------------------|

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|                                     |  |                         |             | <b>Maturity</b> | <b>Principal</b> | <b>Market Value</b>           |
|-------------------------------------|--|-------------------------|-------------|-----------------|------------------|-------------------------------|
|                                     | <b>Counterparty</b>                        | <b>Currency</b>         | <b>Rate</b> | <b>Date</b>     | <b>Amount*</b>   | <b>(Expressed in U.S. \$)</b> |
| <b>Ukraine - 4.10%</b>              |  |                         |             |                 |                  |                               |
|                                     | <i>Ferrexpo Finance PLC</i>                | USD                     | 7.875%      | 04/07/2016      | 2,216,000        | \$ 2,171,680 <sup>(2)</sup>   |
|                                     | <i>Metinvest BV:</i>                       |                         |             |                 |                  |                               |
|                                     |  | USD                     | 10.250%     | 05/20/2015      | 1,000,000        | 1,030,000 <sup>(3)</sup>      |
|                                     |  | USD                     | 8.750%      | 02/14/2018      | 1,768,000        | 1,706,120 <sup>(2)</sup>      |
|                                     | <i>Mriya Agro Holding PLC</i>              | USD                     | 10.950%     | 03/30/2016      | 5,191,000        | 5,152,068 <sup>(2)</sup>      |
|                                     | <i>National JSC Naftogaz of Ukraine</i>    | USD                     | 9.500%      | 09/30/2014      | 5,000,000        | 5,137,500 <sup>(1)</sup>      |
|                                     |  |                         |             |                 |                  | 15,197,368                    |
| <b>United Arab Emirates - 1.00%</b> |  |                         |             |                 |                  |                               |
|                                     | <i>DP World Ltd.</i>                       | USD                     | 6.850%      | 07/02/2037      | 700,000          | 781,375 <sup>(3)</sup>        |
|                                     | <i>Dubai Holding Commercial Operations</i> |                         |             |                 |                  |                               |
|                                     | <i>MTN Ltd.</i>                            | GBP                     | 6.000%      | 02/01/2017      | 1,900,000        | 2,937,548                     |
|                                     |  |                         |             |                 |                  | 3,718,923                     |
| <b>Venezuela - 6.08%</b>            |  |                         |             |                 |                  |                               |
|                                     | <i>Petroleos de Venezuela SA:</i>          |                         |             |                 |                  |                               |
|                                     |  | USD                     | 4.900%      | 10/28/2014      | 22,023,846       | 20,884,112 <sup>(1)</sup>     |
|                                     |  | USD                     | 5.000%      | 10/28/2015      | 1,844,739        | 1,651,041 <sup>(1)</sup>      |
|                                     |  |                         |             |                 |                  | 22,535,153                    |
| <b>TOTAL CORPORATE BONDS</b>        |  |                         |             |                 |                  |                               |
|                                     |  |                         |             |                 |                  | (Cost \$124,155,168)          |
|                                     |  |                         |             |                 |                  | 120,615,654                   |
| <b>PARTICIPATION NOTES - 2.89%</b>  |  |                         |             |                 |                  |                               |
| <b>Argentina - 0.52%</b>            |  |                         |             |                 |                  |                               |
|                                     | <i>Hidroelec el Chocon SA</i>              | USD                     | 8.061%      | 03/01/2015      | 1,923,077        | 1,923,077                     |
| <b>Ukraine - 2.37%</b>              |  |                         |             |                 |                  |                               |
|                                     | <i>Ukreximbank Biz Finance PLC</i>         | USD                     | 8.375%      | 04/27/2015      | 8,909,000        | 8,775,365 <sup>(1)(3)</sup>   |
| <b>TOTAL PARTICIPATION NOTES</b>    |  |                         |             |                 |                  |                               |
|                                     |  |                         |             |                 |                  | (Cost \$11,056,744)           |
|                                     |  |                         |             |                 |                  | 10,698,442                    |
| <b>CREDIT LINKED NOTES - 22.47%</b> |  |                         |             |                 |                  |                               |
| <b>Argentina - 0.63%</b>            |  |                         |             |                 |                  |                               |
|                                     | <i>Cablevision SA</i>                      | Deutsche Bank AG London | USD         | 9.375%          | 02/12/2018       | 3,015,000                     |
|                                     |  |                         |             |                 |                  | 2,336,625                     |
| <b>Brazil - 3.84%</b>               |  |                         |             |                 |                  |                               |

## Edgar Filing: Stone Harbor Emerging Markets Income Fund - Form N-CSR

*Nota Do Tesouro Nacional:*

|                          |     |         |            |            |           |
|--------------------------|-----|---------|------------|------------|-----------|
| JPMorgan Chase & Co.     | BRL | 10.000% | 01/01/2017 | 19,300,000 | 9,438,678 |
| Citigroup Global Markets | BRL | 6.000%  | 08/15/2020 | 5,878,680  | 3,240,781 |

*See Notes to Financial Statements.*  
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**Table of Contents****Stone Harbor Emerging Markets Income Fund****Statement of Investments**

November 30, 2012

|   | Counterparty               | Currency | Rate     | Maturity<br>Date | Principal<br>Amount/Shares* (Expressed in U.S. \$) | Market Value<br>(Expressed in U.S. \$) |
|---|----------------------------|----------|----------|------------------|--|--|
| <b>Brazil (continued)</b>                               |                            |          |          |                  |  |  |
| <i>Nota Do Tesouro Nacional (continued)</i>             |                            |          |          |                  |  |  |
|   | JPMorgan Chase & Co.       | BRL      | 10.000%  | 01/01/2021       | 3,200,000  | \$ 1,560,321                           |
|   |                            |          |          |                  |  | 14,239,780                             |
| <b>Iraq - 3.58%</b>                                     |                            |          |          |                  |  |  |
| <i>Republic of Iraq</i>                                 |                            |          |          |                  |  |  |
|   | Merrill Lynch              | JPY      | 2.548%   | 01/01/2028       | 1,584,747,486                                      | 13,264,703 <sup>(8)</sup>              |
| <b>Russia - 14.42%</b>                                  |                            |          |          |                  |  |  |
| <i>Russian Federation:</i>                              |                            |          |          |                  |  |  |
|   | Deutsche Bank AG London    | RUB      | 6.880%   | 07/15/2015       | 420,000,000  | 13,731,987                             |
|   | Deutsche Bank AG London    | RUB      | 7.600%   | 04/14/2021       | 130,000,000  | 4,425,281                              |
|   | JPMorgan Chase & Co.       | RUB      | 7.600%   | 04/14/2021       | 320,000,000  | 10,892,999                             |
|   | Credit Suisse First Boston | RUB      | 7.600%   | 04/14/2021       | 718,600,000  | 24,449,942                             |
|   |                            |          |          |                  |  | 53,500,209                             |
| <b>TOTAL CREDIT LINKED NOTES</b>                        |                            |          |          |                  |  | 83,341,317                             |
| (Cost \$82,576,007)                                     |                            |          |          |                  |  |  |
| <b>COMMON STOCK - 1.75%</b>                             |                            |          |          |                  |  |  |
| <b>Iraq - 1.75%</b>                                     |                            |          |          |                  |  |  |
| <i>Genel Energy PLC</i>                                 |                            |          |          |                  |  |  |
|   |                            | GBP      |          |                  | 500,000  | 6,480,710 <sup>(9)</sup>               |
| <b>TOTAL COMMON STOCK</b>                               |                            |          |          |                  |  | 6,480,710                              |
| (Cost \$8,089,306)                                      |                            |          |          |                  |  |  |
| <b>SHORT TERM INVESTMENTS - 0.11%</b>                   |                            |          |          |                  |  |  |
| <b>Money Market Mutual Funds - 0.11%</b>                |                            |          |          |                  |  |  |
| <i>Dreyfus Treasury Prime Cash Management</i>           |                            |          |          |                  |  |  |
| <i>(7-Day Yield)</i>                                    |                            |          |          |                  |  |  |
|   |                            | USD      | 0.00431% | N/A              | 421,105  | 421,105                                |
| <b>TOTAL SHORT TERM INVESTMENTS</b>                     |                            |          |          |                  |  | 421,105                                |
| (Cost \$421,105)  |                            |          |          |                  |  |  |
| <b>Total Investments - 124.26%</b>                      |                            |          |          |                  |  | 460,849,896                            |
| (Cost \$468,350,783)                                    |                            |          |          |                  |  |  |
| <b>Liabilities in Excess of Other Assets - (24.26)%</b> |                            |          |          |                  |  | (89,989,252)                           |
| <b>Net Assets - 100.00%</b>                             |                            |          |          |                  |  | \$ 370,860,644                         |

*See Notes to Financial Statements.*

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**Stone Harbor Emerging Markets Income Fund Statement of Investments**

November 30, 2012

\* The contract/principal amount of each security is stated in the currency in which the security is denominated. See below.

|     |   |                      |
|-----|---|----------------------|
| BRL | - | Brazilian Real       |
| COP | - | Colombian Peso       |
| EUR | - | Euro Currency        |
| GBP | - | Great Britain Pound  |
| JPY | - | Japanese Yen         |
| MXN | - | Mexican Peso         |
| MYR | - | Malaysian Ringgit    |
| RON | - | Romanian Leu         |
| RUB | - | New Russian Ruble    |
| TRY | - | New Turkish Lira     |
| USD | - | United States Dollar |
| ZAR | - | South African Rand   |

- (1) On November 30, 2012, securities valued at \$150,412,078 were pledged as collateral for reverse repurchase agreements.
- (2) Security exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may normally be sold to qualified institutional buyers in transactions exempt from registration. Total market value of Rule 144A securities amounts to \$74,553,130, which represents approximately 20.10% of net assets as of November 30, 2012.
- (3) Securities were originally issued pursuant to Regulation S under the Securities Act of 1933, which exempts securities offered and sold outside of the United States from registration. Such securities cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. As of November 30, 2012, the aggregate market value of those securities was \$85,938,347, which represents approximately 23.17% of net assets.
- (4) Bank loans generally pay interest at rates which are periodically determined by reference to a base lending rate plus a premium. All loans carry a variable rate of interest. These base lending rates are generally (i) the Prime Rate offered by one or more major United States banks, (ii) the lending rate offered by one or more European banks such as the London Interbank Offered Rate ( LIBOR ) or (iii) the Certificate of Deposit rate. Rate shown represents the weighted average rate at November 30, 2012. Bank Loans, while exempt from registration, under the Securities Act of 1933, contain certain restrictions on resale and cannot be sold publicly. Floating rate bank loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy. As a result, the actual remaining maturity may be substantially less than the stated maturity shown.
- (5) Step bond. Coupon increases periodically based upon a predetermined schedule. Interest rate disclosed is that which is in effect at November 30, 2012.
- (6) Security is currently in default/non-income producing.
- (7) This security is considered illiquid. On November 30, 2012, the total market values of these securities were \$1,406,659, representing 0.38% of net assets.
- (8) Floating or variable rate security. Interest rate disclosed is that which is in effect at November 30, 2012.
- (9) Non-income producing security.

**Common Abbreviations:**

|      |   |  |
|------|---|--|
| AS   | - | Anonim Sirket is the Turkish term for Incorporation.   |
| BV   | - | Besloten Vennootschap is the Dutch term for private limited liability company.                 |
| BVI  | - | British Virgin Islands.  |
| ESP  | - | Empresa de Servicios Publicos is the Colombian term for Public Service Company.                |
| GmbH | - | Gesellschaft mit beschränkter Haftung is the German term for a company with limited liability. |
| JSC  | - | Joint Stock Company.   |
| LLC  | - | Limited Liability Company.   |
| LLP  | - | Limited Liability Partnership.   |
| Ltd. | - | Limited.   |
| MTN  | - | Medium Term Note.  |
| OAO  | - | Otkrytoe Aktsionerhoe Obschestvo is the Russian term for Open Joint Stock Company.             |
| OJSC | - | Open Joint Stock Company.  |
| PLC  | - | Public Limited Company.  |

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- Pte. - Private.
- SA - Generally designates corporations in various countries, mostly those employing the civil law.
- SAA - Sociedad Anonima Abierta is the Peruvian term used for companies with 20 or more shareholders.
- SAB de CV - A variable capital company.
- Tbk - Terbuka is the Indonesian term for limited liability company.

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November 30, 2012

**OUTSTANDING FORWARD FOREIGN CURRENCY CONTRACTS**

| Counterparty             | Foreign Currency | Contracted Amount* | Purchase/Sale Contract | Settlement Date | Current Value | Unrealized Appreciation/ (Depreciation) |
|--------------------------|------------------|--------------------|------------------------|-----------------|---------------|---|
| Citigroup Global Markets | COP              | 853,275,000        | Purchase               | 12/03/2012      | \$ 469,911    | \$ 6,089                                |
| Citigroup Global Markets | COP              | 853,275,003        | Purchase               | 01/29/2013      | 466,953       | 2,383                                   |
| JPMorgan Chase & Co.     | EUR              | 7,561,526          | Purchase               | 12/31/2012      | 9,837,323     | 33,427                                  |
| JPMorgan Chase & Co.     | EUR              | 606,000            | Purchase               | 12/31/2012      | 788,388       | 15,847                                  |
| JPMorgan Chase & Co.     | EUR              | 1,600,000          | Purchase               | 12/31/2012      | 2,081,553     | 4,640                                   |
| JPMorgan Chase & Co.     | EUR              | 415,612            | Purchase               | 12/31/2012      | 540,699       | 1,205                                   |
| JPMorgan Chase & Co.     | JPY              | 1,109,232,000      | Sale                   | 01/04/2013      | 13,460,786    | 508,863                                 |
| Citigroup Global Markets | RUB              | 108,190,320        | Purchase               | 02/01/2013      | 3,471,991     | 63,724                                  |
|                          |                  |                    |                        |                 |               | \$ 636,178                              |

|                          |     |             |          |            |            |                |
|--------------------------|-----|-------------|----------|------------|------------|----------------|
| Citigroup Global Markets | COP | 853,275,009 | Sale     | 12/03/2012 | \$ 469,911 | \$ (2,363)     |
| JPMorgan Chase & Co.     | EUR | 34,391,000  | Sale     | 12/31/2012 | 44,741,683 | (982,575)      |
| JPMorgan Chase & Co.     | EUR | 2,000,000   | Sale     | 12/31/2012 | 2,601,941  | (7,301)        |
| JPMorgan Chase & Co.     | EUR | 4,690,871   | Sale     | 12/31/2012 | 6,102,685  | (11,237)       |
| JPMorgan Chase & Co.     | EUR | 606,000     | Sale     | 12/31/2012 | 788,388    | (17,314)       |
| JPMorgan Chase & Co.     | GBP | 286,000     | Sale     | 12/31/2012 | 458,182    | (3,631)        |
| JPMorgan Chase & Co.     | GBP | 6,140,000   | Sale     | 12/31/2012 | 9,836,488  | (77,940)       |
| Citigroup Global Markets | RON | 6,169,464   | Purchase | 12/18/2012 | 1,770,398  | (8,315)        |
|                          |     |             |          |            |            | \$ (1,110,676) |

\* The contracted amount is stated in the currency in which the security is denominated.

**REVERSE REPURCHASE AGREEMENTS**

| Counterparty               | Interest Rate | Trade Date | Value        |
|----------------------------|---------------|------------|--------------|
| Goldman Sachs              | 0.400%        | 11/29/2011 | \$ 1,302,718 |
| Credit Suisse First Boston | 0.750%        | 02/29/2012 | 1,106,160    |
| Credit Suisse First Boston | 0.950%        | 02/29/2012 | 2,348,595    |
| Credit Suisse First Boston | 0.250%        | 04/17/2012 | 7,814,471    |
| Goldman Sachs              | 0.250%        | 05/10/2012 | 1,723,843    |
| JP Morgan Chase & Co.      | 0.600%        | 05/15/2012 | 3,273,700    |
| Goldman Sachs              | 0.450%        | 05/15/2012 | 1,817,530    |
| Barclays Bank PLC          | 0.600%        | 05/16/2012 | 2,779,259    |
| UBS                        | 0.800%        | 05/25/2012 | 1,235,079    |
| UBS                        | 0.950%        | 05/25/2012 | 11,038,176   |
| Credit Suisse First Boston | 0.500%        | 05/25/2012 | 2,407,310    |
| Goldman Sachs              | 0.250%        | 07/16/2012 | 5,258,237    |
| Goldman Sachs              | 0.300%        | 08/07/2012 | 6,956,794    |
| Goldman Sachs              | 0.350%        | 08/07/2012 | 2,093,315    |
| JP Morgan Chase & Co.      | 0.650%        | 08/14/2012 | 863,693      |
| Goldman Sachs              | 0.700%        | 08/14/2012 | 918,019      |



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|                            |        |            |           |
|----------------------------|--------|------------|-----------|
| JP Morgan Chase & Co.      | 0.450% | 08/27/2012 | 774,520   |
| JP Morgan Chase & Co.      | 0.450% | 08/27/2012 | 661,658   |
| JP Morgan Chase & Co.      | 0.500% | 08/27/2012 | 793,443   |
| JP Morgan Chase & Co.      | 0.500% | 08/27/2012 | 808,800   |
| Goldman Sachs              | 0.400% | 08/28/2012 | 1,012,635 |
| Goldman Sachs              | 0.400% | 08/28/2012 | 1,009,363 |
| Goldman Sachs              | 0.400% | 08/28/2012 | 989,234   |
| Goldman Sachs              | 0.920% | 08/28/2012 | 902,208   |
| Credit Suisse First Boston | 0.750% | 10/09/2012 | 9,361,075 |
| Goldman Sachs              | 0.850% | 10/16/2012 | 4,638,786 |
| JP Morgan Chase & Co.      | 0.850% | 10/16/2012 | 4,357,500 |
| Goldman Sachs              | 0.850% | 10/22/2012 | 7,142,231 |
| JP Morgan Chase & Co.      | 0.750% | 11/13/2012 | 1,780,767 |

*See Notes to Financial Statements.*

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November 30, 2012

| Counterparty               | Interest Rate | Trade Date | Value        |
|----------------------------|---------------|------------|--------------|
| Credit Suisse First Boston | 0.400%        | 11/21/2012 | \$ 4,877,280 |
| Credit Suisse First Boston | 0.850%        | 11/27/2012 | 7,735,926    |
| Credit Suisse First Boston | 0.500%        | 11/27/2012 | 803,732      |
| Credit Suisse First Boston | 0.950%        | 11/27/2012 | 5,858,980    |
| JP Morgan Chase & Co.      | 0.650%        | 11/29/2012 | 3,613,522    |
| JP Morgan Chase & Co.      | 0.400%        | 11/29/2012 | 1,566,769    |
| JP Morgan Chase & Co.      | 0.550%        | 11/29/2012 | 998,111      |
| Goldman Sachs              | 0.590%        | 11/29/2012 | 6,840,355    |
| Goldman Sachs              | 0.850%        | 11/29/2012 | 3,599,838    |
| Goldman Sachs              | 0.290%        | 11/29/2012 | 1,806,783    |
| Goldman Sachs              | 0.590%        | 11/29/2012 | 965,547      |
| Credit Suisse First Boston | 0.800%        | 11/29/2012 | 4,335,898    |
| Credit Suisse First Boston | 0.800%        | 11/29/2012 | 3,801,538    |

\$ 133,973,398

All agreements can be repurchased on demand at value plus accrued interest.

Securities determined to be illiquid under the procedures approved by the Fund's Board of Trustees. Information related to the illiquid securities is as follows:

| Date(s) of Purchase     | Security    | Cost         | Market Value | % of Net Assets |
|-------------------------|-------------|--------------|--------------|-----------------|
| 01/11/2011 - 02/18/2011 | Cap Cana SA | \$ 2,067,567 | \$ 501,167   | 0.14%           |
| 01/11/2011 - 02/18/2011 | Cap Cana SA | 2,901,103    | 905,492      | 0.24%           |
|                         |             |              | \$ 1,406,659 | 0.38%           |

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## Stone Harbor Emerging Markets

## Income Fund

## Statement of Assets &amp; Liabilities

November 30, 2012

|   |                    |
|---|--------------------|
| <b>ASSETS:</b>  |                    |
| Investments, at value <sup>(1)</sup>                          | \$ 460,849,896     |
| Cash  | 10,695,183         |
| Foreign currency, at value (Cost \$634,874)                   | 554,032            |
| Unrealized appreciation on forward foreign currency contracts | 636,178            |
| Receivable for investments sold                               | 37,554,120         |
| Receivable due from broker                                    | 907,000            |
| Receivable for closed forward currency contracts              | 1,202,759          |
| Interest receivable   | 10,865,168         |
| Prepaid and other assets                                      | 1,885              |
| <b>Total Assets</b>   | <b>523,266,221</b> |

|   |                       |
|---|-----------------------|
| <b>LIABILITIES:</b>   |                       |
| Payable for reverse repurchase agreements                     | 133,973,398           |
| Interest due on reverse repurchase agreements                 | 181,958               |
| Payable due to broker   | 4,718,000             |
| Payable for investments purchased                             | 11,794,548            |
| Unrealized depreciation on forward foreign currency contracts | 1,110,676             |
| Payable to advisor  | 406,674               |
| Payable to administrator                                      | 61,364                |
| Other payables  | 158,959               |
| <b>Total Liabilities</b>                                      | <b>152,405,577</b>    |
| <b>Net Assets</b>   | <b>\$ 370,860,644</b> |

|  |                       |
|--|-----------------------|
| <b>NET ASSETS CONSIST OF:</b>  |                       |
| Paid-in capital  | \$ 373,971,246        |
| Undistributed net investment income  | 860,746               |
| Accumulated net realized gain on investments, credit default swap contracts, forward foreign currency contracts and foreign currency transactions          | 4,061,235             |
| Net unrealized depreciation on investments, forward foreign currency contracts and translation of assets and liabilities denominated in foreign currencies | (8,032,583)           |
| <b>Net Assets</b>  | <b>\$ 370,860,644</b> |

|   |                |
|---|----------------|
| <b>PRICING OF SHARES:</b>   |                |
| Net Assets  | \$ 370,860,644 |
| Shares of beneficial interest outstanding (unlimited number of shares, par value of \$0.001 per share authorized) | 15,704,477     |
| Net assets value, offering and redemption price per share   | \$ 23.61       |

|                                    |                |
|------------------------------------|----------------|
| <sup>(1)</sup> Cost of Investments | \$ 468,350,783 |
|------------------------------------|----------------|

See Notes to Financial Statements.

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**Table of Contents****Stone Harbor Emerging Markets Income Fund****Statement of Operations**

For the Year Ended November 30, 2012

|   |                      |
|---|----------------------|
| <b>INVESTMENT INCOME:</b>   |                      |
| Interest (net of foreign withholding tax of \$3)                        | \$ 40,981,646        |
| <b>Total Investment Income</b>  | <b>40,981,646</b>    |
| <b>EXPENSES:</b>  |                      |
| Investment advisory fees  | 4,691,736            |
| Administration fees   | 708,739              |
| Interest on reverse repurchase agreements                               | 726,857              |
| Custodian fees  | 114,135              |
| Audit fees  | 78,011               |
| Printing fees   | 51,233               |
| Legal fees  | 81,863               |
| Trustee fee   | 23,873               |
| Transfer agent fees   | 18,328               |
| Insurance fees  | 33,017               |
| Other   | 32,048               |
| <b>Total Expenses</b>   | <b>6,559,840</b>     |
| <b>Net Investment Income</b>  | <b>34,421,806</b>    |
| <b>REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS:</b>              |                      |
| Net realized gain/(loss) on:  |                      |
| Investments   | 5,138,392            |
| Credit default swap contracts   | (1,649,306)          |
| Forward foreign currency contracts                                      | 2,877,080            |
| Foreign currency transactions   | (1,848,347)          |
| Net realized gain   | 4,517,819            |
| Change in unrealized appreciation/(depreciation) on:                    |                      |
| Investments   | 19,913,149           |
| Credit default swap contracts   | 465,175              |
| Forward foreign currency contracts                                      | (842,660)            |
| Translation of assets and liabilities denominated in foreign currencies | 65,532               |
| Net change  | 19,601,196           |
| <b>Net Realized and Unrealized Gain on Investments</b>                  | <b>24,119,015</b>    |
| <b>Net Increase in Net Assets Resulting from Operations</b>             | <b>\$ 58,540,821</b> |

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## Stone Harbor Emerging Markets

## Income Fund

## Statement of Changes in Net Assets

|   | For the<br>Year Ended<br>November 30, 2012 | For the Period<br>December 22, 2010<br>(Inception) to<br>November 30, 2011 |
|---|--|--|
| <b>OPERATIONS:</b>  |  |  |
| Net investment income   | \$ 34,421,806                              | \$ 30,542,460  |
| Net realized gain/(loss) on Investments, securities sold short, credit default swap contracts, forward foreign currency contracts, and foreign currency transactions  | 4,517,819                                  | (3,054,210)  |
| Net change in unrealized appreciation/(depreciation) on investments, credit default swap contracts, forward foreign currency contracts, and translation of assets and liabilities denominated in foreign currencies | 19,601,196                                 | (27,633,779)   |
| <b>Net increase/(decrease) in net assets resulting from operations</b>  | <b>58,540,821</b>                          | <b>(145,529)</b>   |
| <b>DISTRIBUTIONS TO SHAREHOLDERS:</b>   |  |  |
| From net investment income  | (33,746,350)                               | (27,759,544)   |
| <b>Net decrease in net assets from distributions to shareholders</b>  | <b>(33,746,350)</b>                        | <b>(27,759,544)</b>  |
| <b>CAPITAL SHARE TRANSACTIONS:</b>  |  |  |
| Proceeds from sales of shares, net of offering costs (\$ and \$765,000, respectively)   |  | 364,522,500  |
| Net asset value of common shares issued to stockholders from reinvestment of dividends  | 3,397,999                                  | 5,950,747  |
| <b>Net increase in net assets from capital share transactions</b>   | <b>3,397,999</b>                           | <b>370,473,247</b>   |
| <b>Net Increase in Net Assets</b>   | <b>28,192,470</b>                          | <b>342,568,174</b>   |
| <b>NET ASSETS:</b>  |  |  |
| Beginning of period   | 342,668,174                                | 100,000  |
| End of period (including undistributed/(overdistributed) net investment income of \$860,746 and \$(182,366))  | \$ 370,860,644                             | \$ 342,668,174   |
| <b>OTHER INFORMATION:</b>   |  |  |
| <b>Share Transactions:</b>  |  |  |
| Beginning shares  | 15,557,578                                 | 4,188  |
| Shares issued in connection with initial public offering  |  | 15,300,000   |
| Shares issued as reinvestment of dividends  | 146,899                                    | 253,390  |
| Shares outstanding - end of period  | 15,704,477                                 | 15,557,578   |

See Notes to Financial Statements.

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**Table of Contents****Stone Harbor Emerging Markets Income Fund****Statement of Cash Flows**

For the Year Ended November 30, 2012

|   |                      |
|---|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                      |
| Net increase in net assets from operations  | \$ 58,540,821        |
| Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities: |                      |
| Purchase of investment securities   | (582,807,464)        |
| Proceeds from disposition of investment securities  | 530,008,558          |
| Net proceeds from disposition of short term investment securities   | 18,672,631           |
| Net payments on credit default swap contracts   | (1,274,306)          |
| Premium amortization  | 1,325,541            |
| Discount accretion  | (5,788,549)          |
| Net realized (gain)/loss on:  |                      |
| Investments   | (5,138,392)          |
| Credit default swap contracts   | 1,649,306            |
| Net change in unrealized (appreciation)/depreciation on:  |                      |
| Investments   | (19,913,149)         |
| Credit default swap contracts   | (465,175)            |
| Forward foreign currency contracts  | 842,660              |
| Translation of assets and liabilities denominated in foreign currencies                                       | (65,532)             |
| Decrease in receivable from broker  | 273,000              |
| Decrease in interest receivable   | 431,827              |
| Increase in receivable for closed foreign currency contracts  | (1,202,759)          |
| Decrease in prepaid and other assets  | 22                   |
| Decrease in interest due on reverse repurchase agreements   | (25,592)             |
| Increase in payable due to broker   | 4,718,000            |
| Increase in payable to advisor  | 52,433               |
| Increase in payable to administrator  | 7,743                |
| Decrease in payable for trustee fees  | (15,591)             |
| Decrease in other payables  | (1,417)              |
| <b>Net Cash Used in Operating Activities</b>  | <b>\$ (175,384)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                      |
| Cash received from reverse repurchase agreements  | \$ 444,592,435       |
| Cash payments made on reverse repurchase agreements   | (403,707,552)        |
| Cash distributions paid   | (30,348,351)         |
| <b>Net Cash Provided by Financing Activities</b>  | <b>\$ 10,536,532</b> |
| <b>Effect of exchange rates on cash</b>   | <b>\$ 65,532</b>     |
| <b>Net increase in cash</b>   | <b>\$ 10,426,680</b> |
| <b>Cash and foreign currency, beginning of period</b>   | <b>\$ 822,535</b>    |
| <b>Cash and foreign currency, end of period</b>   | <b>\$ 11,249,215</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>  |                      |
| Cash paid during the period for interest on reverse repurchase agreements:                                    | \$ 752,449           |
| Noncash financing activities not included herein consist of reinvest of dividends and distributions of:       | \$ 3,397,999         |

*See Notes to Financial Statements.*

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## Stone Harbor Emerging Markets Income Fund

## Financial Highlights

For a share outstanding throughout the periods presented.

|  | For the<br>Year Ended<br>November 30, 2012 | For the Period<br>December 22, 2010<br>(Inception) to<br>November 30, 2011 |
|--|--|--|
| Net asset value - beginning of period                      | \$ 22.03                                   | \$ 23.88   |
| <b>Income/(loss) from investment operations:</b>           |  |  |
| Net investment income                                      | 2.20 <sup>(1)</sup>                        | 1.99 <sup>(1)</sup>  |
| Net realized and unrealized gain/(loss) on investments     | 1.54                                       | (1.99)   |
| Total income from investment operations                    | 3.74                                       |  |
| <b>Less distributions to common shareholders:</b>          |  |  |
| From net investment income                                 | (2.16)                                     | (1.80)   |
| Total distributions  | (2.16)                                     | (1.80)   |
| <b>Capital share transactions:</b>                         |  |  |
| Common share offering costs charged to paid-in capital     |  | (0.05)   |
| Total capital share transactions                           |  | (0.05)   |
| Net Increase/(Decrease) in Net Asset Value                 | 1.58                                       | (1.85)   |
| Net asset value - end of period                            | \$ 23.61                                   | \$ 22.03   |
| Market price - end of period                               | \$ 24.70                                   | \$ 22.38   |
| <b>Total Return - Net Asset Value<sup>(2)</sup></b>        | 17.71%                                     | (0.47%)  |
| <b>Total Return - Market Price<sup>(2)</sup></b>           | 21.22%                                     | (3.41%)  |
| <b>Ratios/Supplemental Data:</b>                           |  |  |
| Net assets, end of period (in thousands)                   | \$ 370,861                                 | \$ 342,668   |
| Ratio of expenses to average net assets                    | 1.83%                                      | 1.76% <sup>(3)</sup>   |
| Ratio of net investment income to average net assets       | 9.59%                                      | 8.90% <sup>(3)</sup>   |
| Ratio of expenses to average managed assets <sup>(4)</sup> | 1.40%                                      | 1.45% <sup>(3)</sup>   |
| Portfolio turnover rate                                    | 122%                                       | 157%   |
| <b>Borrowings at End of Period:</b>                        |  |  |
| Aggregate Amount Outstanding (in thousands)                | \$ 133,973                                 | \$ 93,089  |
| Asset Coverage Per \$1,000 (in thousands)                  | \$ 3,768                                   | \$ 4,681   |

(1) Calculated using average shares throughout the period.

(2) Total investment return is calculated assuming a purchase of common share at the opening on the first day and a sale at closing on the last day of each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment returns do not reflect brokerage commissions, if any, and are not annualized.

(3) Annualized.

(4) Average managed assets represent net assets applicable to common shares plus average amount of borrowings during the period.

See Notes to Financial Statements.

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# Stone Harbor Emerging Markets

## Income Fund

## Notes to Financial Statements

November 30, 2012

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Stone Harbor Emerging Markets Income Fund (the Fund) is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on September 10, 2010 pursuant to an Agreement and Declaration of Trust governed by the laws of The Commonwealth of Massachusetts (the Declaration of Trust). The Fund commenced operations on December 22, 2010. Prior to that, the Fund had no operations other than matters relating to its organization and the sale and issuance of 4,188 shares of beneficial interest (Common Shares) in the Fund to the Stone Harbor Investment Partners LP (the Adviser or Stone Harbor) at a price of \$23.88 per share. The Fund's common shares are listed on the New York Stock Exchange (the Exchange) and trade under the ticker symbol EDF.

The Fund's primary investment objective is to maximize total return, which consists of income on its investments and capital appreciation. The Fund will normally invest at least 80% of its net assets (plus any borrowings made for investment purposes) in emerging markets securities. Emerging markets securities include fixed income securities and other instruments (including derivatives) that are economically tied to emerging market countries, that are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked to those countries' markets, currencies, economies or ability to repay loans. A security or instrument is economically tied to an emerging market country if it is principally traded on the country's securities markets or if the issuer is organized or principally operates in the country, derives a majority of its income from its operations within the country or has a majority of its assets within the country.

The Fund is classified as non-diversified under the 1940 Act. As a result, it can invest a greater portion of its assets in obligations of a single issuer than a diversified fund. The Fund may therefore be more susceptible than a diversified fund to being adversely affected by any single corporate, economic, political or regulatory occurrence.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Investment Valuation:** Debt securities, including bank loans and linked notes, are generally valued at the mean between the bid and asked prices provided by independent pricing services or brokers that are based on transactions in debt obligations, quotations from dealers, market transactions in comparable securities and various other relationships between securities. Equity securities for which market quotations are available are generally valued at the last sale price or official closing price on the primary market or exchange on which they trade. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market and are valued at the mean between the bid and asked prices as of the close of business of that market. When prices are not readily available, or are determined not to reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund may value these investments at fair value as determined in accordance with the procedures approved by the Fund's Board of Trustees. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates market value. Money market mutual funds are valued at their net asset value.

A three-tier hierarchy has been established to measure fair value based on the extent of use of observable inputs as compared to unobservable inputs for disclosure purposes and requires additional disclosures about these valuations measurements. Inputs refer broadly to the assumptions that market participants would use in pricing a security. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the security developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the security developed based on the best information available in the circumstances.

The three-tier hierarchy is summarized as follows:



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- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.
- Level 2 Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Fund's own assumptions about the assumptions a market participant would use in valuing the asset or liability and would be based on the best information available.

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## Stone Harbor Emerging Markets

## Income Fund

## Notes to Financial Statements

November 30, 2012

The following is a summary of the Fund's investment and financial instruments based on the three-tier hierarchy as of November 30, 2012:

|  | Level 1 -<br>Quoted and<br>Unadjusted Prices | Level 2 -<br>Other Significant<br>Observable Inputs | Level 3 - Significant<br>Unobservable Inputs | Total          |
|--|--|---|--|----------------|
| <b>Investments in Securities at Value*</b>       |  |   |  |                |
| <b>Stone Harbor Emerging Markets Income Fund</b> |  |   |  |                |
| Sovereign Debt Obligations                       | \$   | \$ 235,945,598                                      | \$   | \$ 235,945,598 |
| Bank Loans                                       |  |   | 3,347,070                                    | 3,347,070      |
| Corporate Bonds                                  |  |   |  |                |
| Dominican Republic                               |  |   | 1,406,659                                    | 1,406,659      |
| Other  |  | 119,208,995   |  | 119,208,995    |
| Participation Notes                              |  | 10,698,442  |  | 10,698,442     |
| Credit Linked Notes                              |  |   |  |                |
| Argentina  |  |   | 2,336,625                                    | 2,336,625      |
| Iraq   |  |   | 13,264,703                                   | 13,264,703     |
| Other  |  | 67,739,989  |  | 67,739,989     |
| Common Stock                                     | 6,480,710                                    |   |  | 6,480,710      |
| Short Term Investments                           | 421,105                                      |   |  | 421,105        |
| Total  | \$ 6,901,815                                 | \$ 433,593,024                                      | \$ 20,355,057                                | \$ 460,849,896 |
| <b>Other Financial Instruments**</b>             |  |   |  |                |
| <b>Assets</b>                                    |  |   |  |                |
| Forward Foreign Currency Contracts               | \$   | \$ 636,178  | \$   | \$ 636,178     |
| <b>Liabilities</b>                               |  |   |  |                |
| Forward Foreign Currency Contracts               |  | (1,110,676)   |  | (1,110,676)    |
| Total  | \$   | \$ (474,498)  | \$   | \$ (474,498)   |

\* For detailed country descriptions, see accompanying Statement of Investments.

\*\* Other financial instruments are derivative instruments not reflected in the Statement of Investments. The derivatives shown in this table are reported at their unrealized appreciation/(depreciation) at measurement date, which represents the change in the contract's value from trade date.

There were no transfers in or out of Levels 1 and 2 during the year. It is the Fund's policy to recognize transfers into and out of all levels at the end of the reporting period.

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

| Investments<br>in Securities | Balance as of<br>November 30, 2011 | Realized<br>Gain/(Loss)* | Change in<br>Unrealized<br>Appreciation/<br>(Depreciation)* | Purchases | Sales | Transfer into<br>Level 3** | Balance as<br>of November<br>30, 2012 | Net change in<br>unrealized<br>appreciation/ |
|------------------------------|------------------------------------|--------------------------|---|-----------|-------|----------------------------|---------------------------------------|--|
|                              |                                    |                          |   |           |       |                            |                                       |  |

(depreciation)

included in the

Statement of

Operations

attributable to

Level 3

investments held at  
November 30, 2012

| <b>Stone Harbor Emerging Markets Income Fund</b> |           |                   |           |               |           |                  |           |                  |                     |              |                   |            |                   |           |                    |             |
|--|-----------|-------------------|-----------|---------------|-----------|------------------|-----------|------------------|---------------------|--------------|-------------------|------------|-------------------|-----------|--------------------|-------------|
| Bank Loans                                       | \$        | 10,939,500        | \$        | 93,541        | \$        | (285,005)        | \$        | 4,180,206        | \$                  | (12,963,541) | \$                | 1,382,369  | \$                | 3,347,070 | \$                 | (243,813)   |
| Corporate Bonds                                  |           |                   |           |               |           |                  |           |                  |                     |              |                   | 1,406,659  | 1,406,659         |           |                    | (1,041,033) |
| Credit Linked Notes                              |           |                   |           |               |           |                  |           |                  |                     |              |                   | 15,601,328 | 15,601,328        |           |                    | (454,812)   |
| <b>TOTAL</b>                                     | <b>\$</b> | <b>10,939,500</b> | <b>\$</b> | <b>93,541</b> | <b>\$</b> | <b>(285,005)</b> | <b>\$</b> | <b>4,180,206</b> | <b>(12,963,541)</b> | <b>\$</b>    | <b>18,390,356</b> | <b>\$</b>  | <b>20,355,057</b> | <b>\$</b> | <b>(1,739,658)</b> |             |

\* Realized gain/(loss) and change in unrealized depreciation are included in the related amounts on the investment in the Statement of Operations.

\*\* Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity and information for these securities.

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## Stone Harbor Emerging Markets

### Income Fund

### Notes to Financial Statements

November 30, 2012

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

**Security Transactions and Investment Income:** Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Foreign dividend income is recorded on the ex-dividend date or as soon as practical after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. If applicable, any foreign capital gains taxes are accrued, net of unrealized gains, and are payable upon the sale of such investments. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults on an expected interest payment, the Fund's policy is to generally halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default.

**Foreign Currency Translation:** The books and records of the Fund are maintained in U.S. dollars. Investment valuations and other assets and liabilities initially expressed in foreign currencies are converted each business day into U.S. dollars based upon current exchange rates. Prevailing foreign exchange rates may generally be obtained at the close of the NYSE (normally, 4:00 p.m. Eastern time).

The portion of realized and unrealized gains or losses on investments due to fluctuations in foreign currency exchange rates is not separately disclosed and is included in realized and unrealized gains or losses on investments, when applicable.

**Foreign Securities:** The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible revaluation of currencies, the ability to repatriate funds, less complete financial information about companies and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. issuers.

**Credit Linked Notes:** The Fund may invest in credit linked notes to obtain economic exposure to high yield, emerging markets or other securities. Investments in a credit linked note typically provide the holder with a return based on the return of an underlying reference instrument, such as an emerging market bond. Like an investment in a bond, investments in credit linked securities represent the right to receive periodic income payments (in the form of distributions) and payment of principal at the end of the term of the security. In addition to the risks associated with the underlying reference instrument, an investment in a credit linked note is also subject to the risk that the counterparty will be unwilling or unable to meet its obligations under the note.

**Leverage:** The Fund may borrow from banks and other financial institutions and may also borrow additional funds by entering into reverse repurchase agreements or the issuance of debt securities (collectively, Borrowings) in an amount that does not exceed 33 1/3% of the Fund's Total Assets (defined in Note 4 below) immediately after such transactions. It is possible that following such Borrowings, the assets of the Fund will decline due to market conditions such that this 33 1/3% limit will be exceeded. In that case, the leverage risk to Common Shareholders will increase.

In a reverse repurchase agreement, the Fund sells to a financial institution a security that it holds with an agreement to repurchase the same security at an agreed-upon price and date. A reverse repurchase agreement involves the risk that the market value of the security sold by the Fund may decline below the repurchase price of the security. The Fund will segregate assets determined to be liquid by the investment adviser or otherwise cover its obligations under reverse repurchase agreements. Due to the short term nature of the reverse repurchase agreements, face value approximates fair value at November 30, 2012. This fair value is based on Level 2 inputs under the three-tier fair valuation hierarchy described above. For the year ended November 30, 2012, the average amount of reverse repurchase agreements outstanding was \$110,117,504, at a weighted average interest rate of 0.65%.

**Loan Participations and Assignments:** The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund's investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, or any rights of set-off against the borrower, and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

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The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower.

**Leverage Risk:** Leverage creates risks for Common Shareholders, including the likelihood of greater volatility of NAV per share and market price of, and dividends paid on, the Common Shares. There is a risk that fluctuations in the interest rates on any Borrowings held by the Fund may adversely affect the return to the Common Shareholders. If the income from the securities purchased with the proceeds of leverage is not sufficient to cover the cost of leverage, the return on the Fund will be less than if leverage had not been used, and therefore the amount available for distribution to the Common Shareholders as dividends and other distributions will be reduced.

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## Stone Harbor Emerging Markets

### Income Fund

### Notes to Financial Statements

November 30, 2012

The Fund may choose not to use leverage at all times. The amount and composition of leverage used may vary depending upon a number of factors, including economic and market conditions in the relevant emerging market countries, the availability of relatively attractive investment opportunities not requiring leverage and the costs and risks that the Fund would incur as a result of leverage.

**Credit and Market Risk:** The Fund invests in high yield and emerging market instruments that are subject to certain credit and market risks. The yields of high yield and emerging market debt obligations reflect, among other things, perceived credit and market risks. The Fund's investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading. The consequences of political, social, economic or diplomatic changes may have disruptive effects on the market prices of investments held by the Fund. The Fund's investment in non-dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations. Investments in derivatives are also subject to credit and market risks.

**Distributions to Shareholders:** The Fund intends to make a level dividend distribution each month to Common Shareholders. The level dividend rate may be modified by the Board of Trustees from time to time. Any net capital gains earned by the Fund are distributed at least annually. Income and long-term capital gain distributions are determined in accordance with federal income tax regulations, which may differ from GAAP. Distributions to shareholders are recorded by the Fund on the ex-dividend date.

**Federal and Other Taxes:** No provision for income taxes is included in the accompanying financial statements, as the Fund intends to distribute to shareholders all taxable investment income and realized gains and otherwise comply with Subchapter M of the Internal Revenue Code applicable to regulated investment companies.

The Fund evaluates tax positions taken (or expected to be taken) in the course of preparing the Fund's tax returns to determine whether these positions meet a more-likely-than-not standard that, based on the technical merits, have more than a 50 percent likelihood of being sustained by a taxing authority upon examination. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements.

Management of the Fund analyzes all open tax years, as defined by the Statute of Limitations, for all major jurisdictions, including federal tax authorities and certain state tax authorities. As of the period ended November 30, 2012, the Fund did not have a liability for any unrecognized tax benefits. The Fund's federal and state income and federal excise tax returns for all tax years since inception are subject to examination by the Internal Revenue Service and state departments of revenue. The Fund is subject to a six percent transaction tax on foreign currency inflows for new investments in Brazil. For the year ended November 30, 2012, such tax amounted to \$1,235,950 and is included in net realized gain (loss) on foreign currency transactions.

## 2. DERIVATIVE INSTRUMENTS

**Risk Exposure and the Use of Derivative Instruments:** The Fund's investment objectives not only permit the Fund to purchase investment securities, they also allow the Fund to enter in various types of derivatives contracts. In doing so, the Fund will employ strategies in differing combinations to permit it to increase, decrease or change the level or types of exposure to market factors. Central to those strategies are features inherent to derivatives that may make them more attractive for this purpose than equity or debt securities: they require little or no initial cash investment; they can focus exposure on only certain selected risk factors; and they may not require the ultimate receipt or delivery of the underlying security (or securities) to the contract. This may allow the Fund to pursue its objectives more quickly and efficiently than if the Fund were to make direct purchases or sales of securities capable of effecting a similar response to market factors.

**Market Risk Factors:** In pursuit of its investment objectives, the Fund may seek to use derivatives to increase or decrease its exposure to the following market risk factors, among others:

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*Interest Rate Risk.* Interest rate risk refers to the fluctuations in value of fixed-income securities resulting from the inverse relationship between price and yield. For example, an increase in general interest rates will tend to reduce the value of already issued fixed-income investments, and a decline in general interest rates will tend to increase their value. In addition, debt securities with longer maturities that tend to have higher yields are subject to potentially greater fluctuations in value from changes in interest rates than obligations with shorter maturities.

*Credit Risk.* Credit risk relates to the ability of the issuer to meet interest and principal payments, or both, as they come due. In general, lower-grade, higher-yield bonds are subject to credit risk to a greater extent than lower-yield, higher-grade bonds.

*Foreign Exchange Rate Risk.* Foreign exchange rate risk relates to the change in the U.S. dollar value of a security held that is denominated in a foreign currency. The U.S. dollar value of a foreign currency denominated security will decrease as the dollar appreciates against the currency, while the U.S. dollar value will increase as the dollar depreciates against the currency.

*Equity Risk.* Equity risk relates to the change in value of equity securities as they relate to increases or decreases in the general market.

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## Stone Harbor Emerging Markets

### Income Fund

### Notes to Financial Statements

November 30, 2012

The Fund's use of derivatives can result in losses due to unanticipated changes in these risk factors and the overall market. In instances where the Fund is using derivatives to decrease, or hedge, exposures to market risk factors for securities held by the Fund, there are also risks that those derivatives may not perform as expected resulting in losses for the combined or hedged positions.

Derivatives may have little or no initial cash investment relative to their market value exposure and therefore can produce significant gains or losses in excess of their cost. This use of embedded leverage allows the Fund to increase its market value exposure relative to its net assets and can substantially increase the volatility of the Fund's performance.

Additional associated risks from investing in derivatives also exist and potentially could have significant effects on the valuation of the derivative and the Fund. Typically, the associated risks are not the risks that the Fund is attempting to increase or decrease exposure to, per its investment objectives, but are the additional risks from investing in derivatives.

Examples of these associated risks are liquidity risk, which is the risk that the Fund will not be able to sell or close out the derivative in a timely manner, and counterparty credit risk, which is the risk that the counterparty will not fulfill its obligation to the Fund. Associated risks can be different for each type of derivative and are discussed by each derivative type below and in the notes that follow.

**Forward Foreign Currency Contracts:** The Fund may engage in currency transactions with counterparties to hedge the value of portfolio securities denominated in particular currencies against fluctuations in relative value, to gain or reduce exposure to certain currencies or to generate income or gains. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The contract is marked-to-market daily, and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is extinguished, through either delivery or offset by entering into another forward foreign currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was extinguished.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected in the Statement of Assets & Liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

**Credit Default Swaps:** The Fund may enter into credit default swap contracts for hedging purposes to gain market exposure or to add leverage to its portfolio. When used for hedging purposes, the Fund would be the buyer of a credit default swap contract. In that case, the Fund would be entitled to receive the par (or other agreed upon) value of a referenced debt obligation, index or other investment from the counterparty to the contract in the event of a default by a third party, such as a U.S. or foreign issuer, on the referenced debt obligation. In return, the Fund would pay to the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no event of default occurs, the Fund would have spent the stream of payments and received no benefit from the contract. When the Fund is the seller of a credit default swap contract, it receives the stream of payments but is obligated to pay upon default of the referenced debt obligation. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total assets, the Fund would be subject to investment exposure on the notional amount of the swap.

In addition to the risks applicable to derivatives generally, credit default swaps involve special risks because they are difficult to value, are highly susceptible to liquidity and credit risk and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation, as opposed to a credit downgrade or other indication of financial difficulty.

The tables below are a summary of the fair valuations of derivative instruments categorized by risk exposure.

Fair Values of derivative instruments on the Statement of Assets & Liabilities as of November 30, 2012:



## Edgar Filing: Stone Harbor Emerging Markets Income Fund - Form N-CSR

| Derivative Risk Exposure   | Asset Derivatives   |            | Liability Derivatives   |                |
|----------------------------|---|------------|---|----------------|
|                            | Balance Sheet Location  | Fair Value | Balance Sheet Location  | Fair Value     |
|                            | Unrealized appreciation on<br>forward foreign currency<br>contracts |            | Unrealized depreciation on<br>forward foreign currency<br>contracts |                |
| Foreign Exchange Contracts |   | \$ 636,178 |   | \$ (1,110,676) |
| Total                      |   | \$ 636,178 |   | \$ (1,110,676) |

The number of forward foreign currency contacts held at November 30, 2012 is representative of activity during the year ended November 30, 2012.

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## Stone Harbor Emerging Markets

## Income Fund

## Notes to Financial Statements

November 30, 2012

The effect of derivative instruments on the Statement of Operations for the year ended November 30, 2012:

| Derivative Risk Exposure   | Location of Gain/(Loss) On Derivatives   | Realized Gain/(Loss) On Derivatives | Change in Unrealized Gain/(Loss)    |
|----------------------------|--|-------------------------------------|-------------------------------------|
|                            | Recognized in Income   | Recognized in Income                | On Derivatives Recognized in Income |
|                            | Net realized gain/(loss) on: Forward foreign currency contracts/Change in unrealized appreciation/(depreciation) |                                     |                                     |
| Foreign Exchange Contracts | on: Forward foreign currency contracts   | \$ 2,877,080                        | \$ (842,660)                        |
|                            | Net realized gain/(loss) on: Credit default swap contracts/Net change in unrealized appreciation/(depreciation)  |                                     |                                     |
| Credit Contracts           | on: Credit default swap contracts  | (1,649,306)                         | 465,175                             |
| Total                      |  | \$ 1,227,774                        | \$ (377,485)                        |

**3. TAX BASIS INFORMATION**

**Tax Basis of Distributions to Shareholders:** Net investment income (loss) and net realized gain (loss) may differ for financial statement and tax purposes. The character of distributions made during the year from net investment income or net realized gains may differ from its ultimate characterization for federal income tax purposes. Also, due to the timing of dividend distributions, the fiscal year in which amounts are distributed may differ from the fiscal year in which the income or realized gain was recorded by the Fund.

The tax character of the distributions paid by the Fund during the fiscal years ended November 30, 2012 and November 30, 2011 were as follows:

|                 | November 30, 2012 | November 30, 2011 |
|-----------------|-------------------|-------------------|
| Ordinary Income | \$ 33,746,350     | \$ 27,759,544     |
| Total           | \$ 33,746,350     | \$ 27,759,544     |

**Components of Distributable Earnings on a Tax Basis:**

As of November 30, 2012, the components of distributable earnings on a tax basis were as follows:

|   |              |
|---|--------------|
| Undistributed Ordinary Income                 | \$ 4,465,180 |
| Unrealized Depreciation                       | (8,032,672)  |
| Cumulative Effect of Other Timing Difference* | 456,890      |

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Total \$ (3,110,602)

*\* Other temporary differences due to timing consist of mark-to-market on forward foreign currency contracts.*

The tax components of distributable earnings are determined in accordance with income tax regulations which may differ from the composition of net assets reported under accounting principles generally accepted in the United States. Accordingly, for the period ended November 30, 2012, certain differences were reclassified. These differences were primarily due to the differing tax treatment of certain investments and the amounts reclassified did not affect net assets.

The reclassifications were as follows:

|                                     |              |
|-------------------------------------|--------------|
| Undistributed Net Investment Income | \$ 367,656   |
| Accumulated Net Realized Loss       | \$ (367,656) |

**Unrealized Appreciation and Depreciation on Investments:** At November 30, 2012, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

|   |                |
|---|----------------|
| Gross appreciation on investments (excess of value over tax cost) | \$ 15,403,265  |
| Gross depreciation on investments (excess of tax cost over value) | (22,904,241)   |
| Net depreciation of foreign currency and derivatives              | (531,696)      |
| Net unrealized depreciation                                       | \$ (8,032,672) |
| <br>  |                |
| Cost of investments for income tax purposes                       | \$ 468,350,872 |

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**Stone Harbor Emerging Markets**

**Income Fund**

**Notes to Financial Statements**

November 30, 2012

**4. ADVISORY FEES, TRUSTEE FEES, ADMINISTRATION FEES, CUSTODY FEES AND TRANSFER AGENT FEES**

The Adviser receives a monthly fee at the annual rate of 1.00% of the average daily value of the Fund's total assets (including any assets attributable to any leverage used) minus the Fund's accrued liabilities (other than Fund liabilities incurred for any leverage) ( Total Assets ).

ALPS Fund Services, Inc. ( ALPS ) serves as administrator to the Fund. Under the administration agreement, ALPS is responsible for calculating the net asset value of the common shares and generally managing the administrative affairs of the Fund. ALPS receives a monthly fee at an annual rate of 0.15% of the average daily value of the Fund's Total Assets.

The Bank of New York Mellon serves as the Fund's custodian. Computershare, Inc. serves as the Fund's transfer agent.

During the reporting period, the Fund paid each Trustee who is not a director, officer, employee or affiliate of Stone Harbor or ALPS, a fee of \$2,500 per quarterly meeting of the Board of Trustees and \$250 for each additional meeting in which that Trustee participated. The Fund will also reimburse independent Trustees for travel and out-of-pocket expenses incurred in connection with such meetings.

**5. SECURITIES TRANSACTIONS**

The cost of purchases and proceeds from sales of securities (excluding short-term securities) during the period ended November 30, 2012, were as follows:

| Purchases of Securities | Proceeds from Sales of Securities |
|-------------------------|-----------------------------------|
| \$ 578,502,577          | \$ 543,589,524                    |

**6. APPLICATION OF RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2011, the FASB issued ASU No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and the International Financial Reporting Standards ( IFRSs ). ASU No. 2011-04 amends FASB ASC Topic 820, Fair Value Measurements and Disclosures, to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. ASU No. 2011-04 is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. Management is currently evaluating the impact these amendments may have on the Fund's financial statements.

In December 2011, the FASB issued ASU No. 2011-11 Disclosures about Offsetting Assets and Liabilities to expand current disclosure requirements on the offsetting of certain assets and liabilities. The new disclosures will be required for investments and derivative financial instruments subject to master netting or similar agreements which are eligible for offset in the Statements of Assets and Liabilities and will require an entity to disclose both gross and net information about such investments and transactions in the financial statements. The guidance is effective for financial statements with fiscal years beginning on or after January 1, 2013, and interim periods within those fiscal years. Management is evaluating the impact of this guidance on the Fund's financial statement disclosures.

**7. INDEMNIFICATIONS**

Under the Trust's organizational documents, its officers and Trustees are indemnified against certain liability arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust enters into contracts with service providers that may contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Trust that have not yet occurred.

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## Summary of Dividend

### Stone Harbor Emerging Markets Income Fund

### Reinvestment Plan

November 30, 2012 (Unaudited)

Unless the registered owner of Common Shares elects to receive cash by contacting Computershare (the Plan Administrator), all dividends declared on Common Shares will be automatically reinvested by the Plan Administrator for shareholders in the Fund's Automatic Dividend Reinvestment Plan (the Plan), in additional Common Shares. Common Shareholders who elect not to participate in the Plan will receive all dividends and other distributions in cash paid by check mailed directly to the shareholder of record (or, if the Common Shares are held in street or other nominee name, then to such nominee) by the Plan Administrator as dividend disbursing agent. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by notice if received and processed by the Plan Administrator prior to the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend or other distribution. Such notice will be effective with respect to a particular dividend or other distribution (together, a Dividend). Some brokers may automatically elect to receive cash on behalf of Common Shareholders and may re-invest that cash in additional Common Shares.

The Plan Administrator will open an account for each Common Shareholder under the Plan in the same name in which such Common Shareholder's Common Shares are registered. Whenever the Fund declares a Dividend payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in Common Shares. The Common Shares will be acquired by the Plan Administrator for the participants' accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized Common Shares from the Fund (Newly Issued Common Shares) or (ii) by purchase of outstanding Common Shares on the open market (Open-Market Purchases) on the NYSE or elsewhere. If, on the payment date for any Dividend, the closing market price plus estimated brokerage commissions per Common Share is equal to or greater than the NAV per Common Share, the Plan Administrator will invest the Dividend amount in Newly Issued Common Shares on behalf of the participants. The number of Newly Issued Common Shares to be credited to each participant's account will be determined by dividing the dollar amount of the Dividend by the NAV per Common Share on the payment date; provided that, if the NAV is less than or equal to 95% of the closing market value on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per Common Share on the payment date. If, on the payment date for any Dividend, the NAV per Common Share is greater than the closing market value plus estimated brokerage commissions, the Plan Administrator will invest the Dividend amount in Common Shares acquired on behalf of the participants in Open-Market Purchases.

In the event of a market discount on the payment date for any Dividend, the Plan Administrator will have until the last business day before the next date on which the Common Shares trade on an ex-dividend basis or 30 days after the payment date for such Dividend, whichever is sooner (the Last Purchase Date), to invest the Dividend amount in Common Shares acquired in Open-Market Purchases. It is contemplated that the Fund will pay monthly income Dividends. If, before the Plan Administrator has completed its Open-Market Purchases, the market price per Common Share exceeds the NAV per Common Share, the average per Common Share purchase price paid by the Plan Administrator may exceed the NAV of the Common Shares, resulting in the acquisition of fewer Common Shares than if the Dividend had been paid in Newly Issued Common Shares on the Dividend payment date. Because of the foregoing difficulty with respect to Open-Market Purchases, the Plan provides that if the Plan Administrator is unable to invest the full Dividend amount in Open-Market Purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Administrator may cease making Open-Market Purchases and may invest the uninvested portion of the Dividend amount in Newly Issued Common Shares at the NAV per Common Share at the close of business on the Last Purchase Date provided that, if the NAV is less than or equal to 95% of the then current market price per Common Share, the dollar amount of the Dividend will be divided by 95% of the market price on the payment date for purposes of determining the number of shares issuable under the Plan.

The Plan Administrator maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common Shares in the account of each Plan participant will be held by the Plan Administrator on behalf of the Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Administrator will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instructions of the participants.

In the case of Common Shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Administrator will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder's name and held for the account of beneficial owners who participate in the Plan.

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There will be no brokerage charges with respect to Common Shares issued directly by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred in connection with Open-Market Purchases. The automatic reinvestment of Dividends will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such Dividends. Participants that request a sale of Common Shares through the Plan Administrator are subject to brokerage commissions.

The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants with regard to purchases in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence or questions concerning the Plan should be directed to the Plan Administrator at 1-866-390-3910.

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**Stone Harbor Emerging Markets Income Fund**

**Additional Information**

November 30, 2012 (Unaudited)

**FUND PORTFOLIO HOLDINGS**

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (the SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Q will be available (1) on the Fund's website located at <http://www.shiplpcef.com>, (2) on the SEC's website at <http://www.sec.gov>, or (3) they may be reviewed and copied at the SEC's Public Reference Room in Washington DC (call 1-800-732-0330 for information on the operation of the Public Reference Room).

**PROXY VOTING**

The policies and procedures used to determine how to vote proxies relating to securities held by the Fund is available (1) without charge, upon request, by calling 1-877-206-0791, (2) on the Fund's website located at <http://www.shiplpcef.com>, or (3) on the SEC's website at <http://www.sec.gov>. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available by August 31 of each year (1) without charge, upon request, by calling 1-877-206-0791, (2) on the Fund's website located at <http://www.shiplpcef.com>, or (3) on the SEC's website at <http://www.sec.gov>.

**SENIOR OFFICER CODE OF ETHICS**

The Fund files a copy of its code of ethics that applies to the Fund's principal executive officer, principal financial officer or controller, or persons performing similar functions, with the SEC as an exhibit to its annual report on Form N-CSR. This will be available on the SEC's website at <http://www.sec.gov>.

**SHAREHOLDER MEETING**

On March 8, 2012, the Fund held its annual meeting of Shareholders for the purpose of voting on a proposal to re-elect Trustees of the Fund. The results of the proposal were as follows:

**Proposal:** To re-elect the following trustees to the Stone Harbor Emerging Markets Income Fund Board.

|          | <b>Thomas W. Brock</b> | <b>Alan Brott</b> |
|----------|------------------------|-------------------|
| For      | 14,186,488             | 14,157,964        |
| Withheld | 102,449                | 130,974           |

This report, including the financial information herein, is transmitted to the shareholders of Stone Harbor Emerging Markets Income Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.



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Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase its common shares in the open market.

Information on the Fund is available at [www.shiplpcef.com](http://www.shiplpcef.com) or by calling the Fund's shareholder servicing agent at 1-866-390-3910.

**Table of Contents****Stone Harbor Emerging Markets Income Fund****Trustees & Officers**

November 30, 2012 (Unaudited)

The business and affairs of the Fund are managed under the direction of its Board of Trustees. The Board of Trustees approves all significant agreements between the Fund and the persons or companies that furnish services to the Fund, including agreements with its distributor, investment adviser, administrator, custodian and transfer agent. The day-to-day operations of the Fund are delegated to the Fund's Adviser and administrator.

The name, age and principal occupations for the past five years of the Trustees and officers of the Fund are listed below, along with the number of portfolios in the Fund complex overseen by and the other directorships held by each Trustee. Except as otherwise noted, the address of each Trustee and officer is c/o Stone Harbor Investment Partners LP, 31 W. 52nd Street, 16th Floor, New York, New York 10019. The Fund's Statement of Additional Information includes additional information about the Trustees and is available without a charge, upon request, by calling 1-866-699-8158.

**INDEPENDENT TRUSTEES**

| <b>Name and Age</b>                      | <b>Position(s) Held with the Fund</b> | <b>Term of Office And Length of Time Served<sup>(1)</sup></b> | <b>Principal Occupation(s) During Past 5 Years</b>   | <b>Number of Portfolios in Fund Complex Overseen by Trustee<sup>(2)</sup></b> | <b>Other Directorships Held by Trustee</b>  |
|--|---------------------------------------|---|--|---|---|
| Alan Brott<br>Age: 70<br>Class I         | Trustee                               | Trustee: Since 2010<br><br>Term Expires: 2015                 | Columbia University Graduate School of Business - Associate Professor, 2000-Present; Consultant, 1991-Present. | 6   | Stone Harbor Investment Funds, Stone Harbor Emerging Markets Total Income Fund, Grosvenor Registered Multi-Strategy Fund, Excelsior Multi-Strategy Hedge Fund of Funds and Excelsior Private Markets Fund II. |
| Heath B. McLendon<br>Age: 79<br>Class II | Trustee                               | Trustee: Since 2010<br><br>Term Expires: 2013                 | Citigroup Chairman of Equity Research Oversight Committee (retired December 31, 2006).                         | 6   | Stone Harbor Investment Funds, Stone Harbor Emerging Markets Total Income Fund.   |
| Patrick Sheehan<br>Age: 65<br>Class III  | Trustee                               | Trustee: Since 2010<br><br>Term Expires: 2014                 | Retired; formerly, Citigroup Asset Management-Managing Director and Fixed Income Portfolio Manager, 1991-2002. | 6   | Stone Harbor Investment Funds, Stone Harbor Emerging Markets Total Income Fund.   |

**INTERESTED TRUSTEE**

| <b>Name and Age</b>                                     | <b>Position(s) Held with the Fund</b> | <b>Term of Office And Length of Time Served<sup>(1)</sup></b> | <b>Principal Occupation(s) During Past 5 Years</b>  | <b>Number of Portfolios in Fund Complex Overseen by Trustee<sup>(2)</sup></b> | <b>Other Directorships Held by Trustee</b> |
|---|---------------------------------------|---|---|---|--|
| Thomas K. Flanagan <sup>(3)</sup><br>Age: 59<br>Class I | Chairman and Trustee/Nominee          | Trustee: Since 2012<br><br>Term Expires: 2013                 | Since April 2006, Portfolio Manager of Stone Harbor; Prior to April 2006, Managing Director and Senior Portfolio Manager for emerging markets debt portfolios at Salomon Brothers Asset | 6   | None                                       |

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Management Inc.; Joined  
Salomon Brothers Asset  
Management Inc. in 1991.

**Table of Contents****Stone Harbor Emerging Markets Income Fund****Trustees & Officers**

November 30, 2012 (Unaudited)

## OFFICERS

| <b>Name and Age</b>         | <b>Position(s) Held with the Fund</b> | <b>Term of Office And Length of Time Served<sup>(1)(4)</sup></b> | <b>Principal Occupation(s) During Past Five Years</b>   |
|-----------------------------|---------------------------------------|--|---|
| Peter J. Wilby<br>Age: 53   | President and Chief Executive Officer | Officer Since: 2010  | Co-portfolio manager of the Fund; since April 2006, Chief Investment Officer of Stone Harbor Investment Partners LP; prior to April 2006, Chief Investment Officer North American Fixed Income at Citigroup Asset Management; joined Citigroup or its predecessor firms in 1989.  |
| Pablo Cisilino<br>Age: 45   | Executive Vice President              | Term of Office: Indefinite<br>Officer Since: 2010                | Co-portfolio manager of the Fund; Since July 2006, Portfolio Manager of Stone Harbor Investment Partners LP; from June 2004 to July 2006, Executive Director for Sales and Trading in Emerging Markets at Morgan Stanley Inc.; prior to June 2004, Vice President for local markets and FX sales and trading, Goldman Sachs; joined Goldman Sachs in 1994.              |
| James E. Craigie<br>Age: 45 | Executive Vice President              | Term of Office: Indefinite<br>Officer Since: 2010                | Co-portfolio manager of the Fund; Since April 2006, Portfolio Manager of Stone Harbor; Prior to April 2006, Managing Director and Senior Portfolio Manager for emerging markets debt portfolios at Salomon Brothers Asset Management Inc.; Joined Salomon Brothers Asset Management Inc. in 1992.   |
| David Griffiths<br>Age: 48  | Executive Vice President              | Term of Office: Indefinite<br>Officer Since: 2010                | Co-portfolio manager of the Fund; Since April 2006, Portfolio Manager of Stone Harbor; Prior to April 2006, Senior Portfolio Manager and economist responsible for market opportunity analysis, hedging and alternative asset allocation strategies; Joined Salomon Brothers Asset Management Limited in 1993.  |
| Angus Halkett<br>Age: 35    | Executive Vice President              | Term of Office: Indefinite<br>Officer Since: 2012                | Co-portfolio manager of the Fund; Prior to joining Stone Harbor, Director at Deutsche Bank responsible for Central Europe rates trading and EMEA Local Markets Strategy; Assistant Fund Manager and Quantitative Analyst in Emerging Markets Fixed Income at F&C Asset Management.  |
| David A. Oliver<br>Age: 53  | Executive Vice President              | Term of Office: Indefinite<br>Officer Since: 2010                | Co-portfolio manager of the Fund; Since June 2008, Portfolio Manager of Stone Harbor Investment Partners LP; from 1986 to June 2008, Managing Director in Emerging Market sales and trading at Citigroup.   |
| William Perry<br>Age: 50    | Executive Vice President              | Term of Office: Indefinite<br>Officer Since: 2012                | Co-portfolio manager of the Fund; Since September 2012, Portfolio Manager of Stone Harbor; From August 2010 to August 2012, Emerging Markets Corporate Portfolio Manager at Morgan Stanley Investment Management; Prior to 2010, Managing Director/Portfolio Manager in the Global Special Opportunities Group for Latin American Special Situations at JPMorgan/Chase. |
| David Scott<br>Age: 51      | Executive Vice President              | Officer Since: 2010  | Co-portfolio manager of the Fund; Since April 2006, Portfolio Manager of Stone Harbor; Prior to April 2006, Managing Director and Head of Traditional Investment Group responsible for the global bond portfolios at Salomon Brothers Asset Management Limited; Joined Salomon Brothers Asset Management Limited in 1994.   |
|                             |                                       | Term of Office: Indefinite                                       |   |



**Table of Contents****Stone Harbor Emerging Markets Income Fund****Trustees & Officers**

November 30, 2012 (Unaudited)

## OFFICERS (continued)

| <b>Name and Age</b>         | <b>Position(s) Held with the Fund</b>                    | <b>Term of Office And Length of Time Served<sup>(1)(4)</sup></b> | <b>Principal Occupation(s) During Past Five Years</b>  |
|-----------------------------|--|--|--|
| James J. Dooley<br>Age: 56  | Treasurer and Principal Financial and Accounting Officer | Officer Since: 2010<br><br>Term of Office: Indefinite            | Since April 2006, Head of Operations, Technology and Finance of Stone Harbor Investment Partners LP; from August 2004 to March 2006, Senior Operations Manager of Institutional Asset Management, Citigroup Asset Management; from October 2002 to August 2004, Managing Director, Global Operations & Application Development, AIG Global Investment Group; from May 2001 to September 2002, President and Chief Operating Officer, Financial Technologies International. |
| Adam J. Shapiro<br>Age: 49  | Chief Legal Officer and Secretary                        | Officer Since: 2010<br><br>Term of Office: Indefinite            | Since April 2006, General Counsel of Stone Harbor Investment Partners LP; from April 2004 to March 2006, General Counsel, North American Fixed Income, Salomon Brothers Asset Management Inc.; from August 1999 to March 2004, Director of Product and Business Development, Citigroup Asset Management.   |
| Jeffrey S. Scott<br>Age: 53 | Chief Compliance Officer and Assistant Secretary         | Officer Since: 2010<br><br>Term of Office: Indefinite            | Since April 2006, Chief Compliance Officer of Stone Harbor Investment Partners LP; from October 2005 to March 2006, Director of Compliance, New York Life Investment Management LLC; from July 1998 to September 2006, Chief Compliance Officer, Salomon Brothers Asset Management Inc.  |
| Dawn Cotten Age: 35         | Assistant Treasurer                                      | Officer Since: 2010<br><br>Term of Office: Indefinite            | Vice President and the Fund Controller of ALPS Fund Services, Inc.; Assistant Treasurer of Stone Harbor Investment Funds, Stone Harbor Emerging Markets Total Income Fund, Clough Global Allocation Fund, Clough Global Equity Fund, Clough Global Opportunities Fund, RiverNorth Funds and Assistant Treasurer and Secretary of the Stonebridge Funds Trust.  |
| JoEllen Legg Age: 51        | Assistant Secretary                                      | Officer Since: 2010<br><br>Term of Office: Indefinite            | Vice President and Senior Associate Counsel of ALPS Fund Services, Inc., ALPS Advisors Inc., ALPS Distributors Inc. and ALPS Portfolio Solutions Distributor, Inc.; Secretary of ALPS Series Trust; Assistant Secretary of the Stone Harbor Investment Funds, Stone Harbor Emerging Markets Total Income Fund, James Advantage Funds and WesMark Funds.  |

<sup>(1)</sup> The business address for each Trustee and officer of the Fund is c/o Stone Harbor Investment Partners LP, 31 West 52nd Street, 16th Floor, New York, NY 10019.

<sup>(2)</sup> The term "Fund Complex" as used herein includes the Fund and the following registered investment companies: Stone Harbor Emerging Markets Total Income Fund, Stone Harbor Emerging Markets Debt Fund, Stone Harbor High Yield Bond Fund, Stone Harbor Local Markets Fund and Stone Harbor Emerging Markets Corporate Debt Fund.

<sup>(3)</sup> Mr. Flanagan is an interested person of the Fund (as defined in the 1940 Act) (an "Interested Trustee") because of his position with Stone Harbor Investment Partners LP.

<sup>(4)</sup> Officers are typically elected every year, unless an officer earlier retires, resigns or is removed from office.

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**INVESTMENT ADVISER**

Stone Harbor Investment Partners LP

31 W. 52nd Street 16th Floor

New York, New York 10019

**ADMINISTRATOR & FUND ACCOUNTANT**

ALPS Fund Services, Inc.

1290 Broadway, Suite 1100

Denver, Colorado 80203

**TRANSFER AGENT**

Computershare, Inc.

480 Washington Blvd.

Jersey City, NJ 07310

**CUSTODIAN**

The Bank of New York Mellon

One Wall Street

New York, New York 10286

**LEGAL COUNSEL**

Ropes & Gray LLP

1211 Avenue of the Americas

New York, New York 10036

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Deloitte & Touche LLP

555 17th Street, Suite 3600

Denver, Colorado 80202



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**Item 2. Code of Ethics.**

- (a) The registrant, as of the end of the period covered by the report, has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller or any persons performing similar functions on behalf of the registrant.
- (b) Not Applicable.
- (c) During the period covered, by this report, no amendments were made to the provisions of the code of ethics adopted in 2 (a) above.
- (d) During the period covered by this report, no implicit or explicit waivers to the provision of the code of ethics adopted in 2 (a) above were granted.
- (e) Not Applicable.
- (f) The registrant's Code of Ethics is attached as Exhibit 12.A.1 hereto.

**Item 3. Audit Committee Financial Expert.**

The registrant's Board of Trustees has determined that the registrant has as least one audit committee financial expert serving on its audit committee. The Board of Trustees has designated Alan Brott as the registrant's audit committee financial expert. Mr. Brott is independent as defined in paragraph (a)(2) of Item 3 to Form N-CSR.

Mr. Brott has significant public accounting experience, including significant experience as a partner at a public accounting firm.

**Item 4. Principal Accounting Fees and Services.**

- (a) Audit Fees: The aggregate fees billed for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal years ended November 30, 2011 and November 30, 2012 were \$62,500 and \$64,500, respectively.
- (b) Audit-Related Fees: The aggregate fees billed for the fiscal years ended November 30, 2011 and November 2012 for assurance and related services by the principal accountant that are reasonably related to the performance of the

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audit of the registrant's financial statements and are not reported under paragraph (a) of this Item were \$11,000 and \$0, respectively.

- (c) **Tax Fees:** The aggregate fees billed for the fiscal years ended November 30, 2011 and November 30, 2012 for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning were \$4,505 and \$4,750, respectively.
- (d) **All Other Fees:** The aggregate fees billed for the fiscal period November 30, 2011 and November 30, 2012 for products and services provided by the principal accountant, other than the services reported in paragraphs (a) through (c) of this Item were \$0 and \$0, respectively.
- (e)(1) **Audit Committee Pre-Approval Policies and Procedures:** All services to be performed by the Registrant's principal auditors must be pre-approved by the registrant's audit committee.
- (e)(2) No services described in paragraphs (b) through (d) were approved pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.
- (f) Not applicable.
- (g) The aggregate non-audit fees billed by the registrant's accountant for services rendered to the registrant, and rendered to the registrant's investment adviser, and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for the fiscal years ended November 30, 2011 and November 30, 2012 were \$0 and \$0, respectively.
- (h) Not applicable.

**Item 5. Audit Committee of Listed Registrant.**

The registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act and is comprised of the following members:

Alan Brott, Chairman

Heath McLendon

Patrick Sheehan

**Item 6. Schedule of Investments.**

- (a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the Report to Stockholders filed under Item 1 of this Form N-CSR.

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(b) Not applicable.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

Attached, as Exhibit Item 7, is a copy of the registrant's policies and procedures.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.****(a)(1) As of: February 6, 2012**

| <b>Name</b>     | <b>Position(s)</b>                    | <b>Term of Office</b> | <b>Principal Occupation(s)</b>   |
|-----------------|---------------------------------------|-----------------------|--|
|                 | <b>Held with</b>                      | <b>And Length of</b>  | <b>During Past 5 Years</b>   |
|                 | <b>the Fund</b>                       | <b>Time Served</b>    |  |
| Peter J. Wilby  | President and Chief Executive Officer | Since 2010            | Co-portfolio manager of Fund; Since April 2006, Chief Investment Officer of Stone Harbor; Prior to April 2006, Chief Investment Officer North American Fixed Income and senior portfolio manager responsible for directing investment policy and strategy for all emerging markets and high yield fixed income portfolios at Citigroup Asset Management; Joined Citigroup or its predecessor firms in 1989. 30 years of industry experience. |
| Pablo Cisilino  | Executive Vice President              | Since 2010            | Co-portfolio manager of Fund; Since July 2006, Portfolio Manager of Stone Harbor; From June 1, 2004 to July 2006, Executive Director for Sales and Trading in Emerging Markets at Morgan Stanley Inc; Prior to June 1, 2004, Vice President for local markets and FX sales and trading, Goldman Sachs; Joined Goldman Sachs in 1994. 21 years of industry experience.  |
| James E. Craige | Executive Vice President              | Since 2010            | Co-portfolio manager of Fund; Since April 2006, Portfolio Manager of Stone Harbor; Prior   |

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|                 |                          |            |   |
|-----------------|--------------------------|------------|---|
|                 |                          |            | to April 2006, Managing Director and Senior Portfolio Manager for emerging markets debt portfolios at Salomon Brothers Asset Management Inc.; Joined Salomon Brothers Asset Management Inc. in 1992. 21 years of industry experience.   |
| David A. Oliver | Executive Vice President | Since 2010 | Co-portfolio manager of Fund; Since June 2008, Portfolio Manager of Stone Harbor; Prior to June 2008, Managing Director in emerging market sales and trading at Citigroup; Joined Citigroup in 1986. 23 years of industry experience.   |
| David Scott     | Executive Vice President | Since 2010 | Co-Portfolio manager of Fund; Since April 2006, Portfolio Manager of Stone Harbor; Prior to April 2006, Managing Director and Head of Traditional Investment Group responsible for the global bond portfolios at Salomon Brothers Asset Management Limited; Joined Salomon Brothers Asset Management Limited in 1994. |
| David Griffiths | Executive Vice President | Since 2010 | Co-Portfolio manager of Fund; Since April 2006, Portfolio Manager of Stone Harbor; Prior to April 2006, Senior Portfolio Manager and economist responsible market opportunity analysis, hedging and alternative asset allocation strategies; Joined Salomon Brothers Asset Management Limited in 1993.                |
| Angus Halkett   | Executive Vice President | Since 2012 | Co-portfolio manager of the Fund; Prior to joining Stone Harbor, Director at Deutsche Bank responsible for Central Europe rates trading and EMEA  |

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Local Markets Strategy; Assistant Fund Manager and Quantitative Analyst in Emerging Markets Fixed Income at F&C Asset Management.

William Perry Executive Vice Since 2012 President  
 Co-portfolio manager of the Fund; Since September 2012, Portfolio Manager of Stone Harbor; From August 2010 to August 2012, Emerging Markets Corporate Portfolio Manager at Morgan Stanley Investment Management; Prior to 2010, Managing Director/Portfolio Manager in the Global Special Opportunities Group for Latin American Special Situations at JPMorgan/Chase.

**(a)(2) As of November 30, 2012, the Portfolio Managers listed above are also responsible for the day-to-day management of the following:**

|                    | Registered Investment |               | Other Pooled Investment |                |                 |                |
|--------------------|-----------------------|---------------|-------------------------|----------------|-----------------|----------------|
|                    | Companies             |               | Vehicles                |                | Other Accounts  |                |
|                    | # of                  | Total         | # of                    | Total          | # of            | Total          |
| Portfolio Manager  | Accounts              | Assets        | Accounts                | Assets         | Accounts        | Assets         |
| Peter Wilby, CFA   | 12                    | 6,978,173,377 | 26 <sup>1</sup>         | 15,248,688,697 | 99 <sup>3</sup> | 30,742,659,209 |
| James Craige, CFA  | 10                    | 6,332,624,497 | 21 <sup>2</sup>         | 14,424,738,570 | 77 <sup>4</sup> | 26,888,401,919 |
| Pablo Cisilino     | 10                    | 6,332,624,497 | 21 <sup>2</sup>         | 14,424,738,570 | 77 <sup>4</sup> | 26,888,401,919 |
| David Oliver, CFA  | 10                    | 6,332,624,497 | 21 <sup>2</sup>         | 14,424,738,570 | 77 <sup>4</sup> | 26,888,401,919 |
| David Scott        | 10                    | 6,332,624,497 | 21 <sup>2</sup>         | 14,424,738,570 | 77 <sup>4</sup> | 26,888,401,919 |
| David Griffiths    | 10                    | 6,332,624,497 | 21 <sup>2</sup>         | 14,424,738,570 | 77 <sup>4</sup> | 26,888,401,919 |
| Angus Halkett, CFA | 10                    | 6,332,624,497 | 21 <sup>2</sup>         | 14,424,738,570 | 77 <sup>4</sup> | 26,888,401,919 |
| William Perry      | 10                    | 6,332,624,497 | 21 <sup>2</sup>         | 14,424,738,570 | 77 <sup>4</sup> | 26,888,401,919 |

# of Accounts does not include investors in Stone Harbor's pooled vehicles.

<sup>1</sup> One pooled investment vehicle contains two accounts of total market value \$254,241,576 that are subject to a performance-based advisory fees. Three segregated accounts are also subject to a performance-based fee with a total market value of \$867,290,672.

<sup>2</sup> One pooled investment vehicle contains a portion of two clients' accounts (market value \$193,606,991) which is subject to a performance-based advisory fee. Three segregated accounts are also subject to a performance-based fee with a total market value of \$867,290,672.

<sup>3</sup> Nine segregated accounts are subject to a performance-based advisory fee with a total market value of \$2,998,326,174.

<sup>4</sup> Seven segregated accounts are subject to a performance-based advisory fee with a total market value of \$2,563,763,288.

**Potential Conflicts of Interest**

*Potential Conflicts of Interest*

Potential conflicts of interest may arise when one of the Fund's portfolio managers has day-to-day management responsibilities with respect to one or more other funds or other accounts, as is the case for the portfolio managers listed in the table above.

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The Investment Manager and the Fund have adopted compliance policies and procedures that are designed to address various conflicts of interest that may arise for the Investment Manager and the individuals that it employs. For example, the Investment Manager seeks to minimize the effects of competing interests for the time and attention of portfolio managers by assigning portfolio managers to manage funds and accounts that share a similar investment style. The Investment Manager has also adopted trade allocation procedures that are designed to facilitate the fair allocation of limited investment opportunities among similarly-managed funds and accounts. There is no guarantee, however, that the policies and procedures adopted by the Investment Manager and the Fund will be able to detect and/or prevent every situation in which an actual or potential conflict may appear.

These potential conflicts include:

*Allocation of Limited Time and Attention.* A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. As a result, the portfolio manager may not be able to formulate or complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

*Allocation of Limited Investment Opportunities.* If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit a fund's ability to take full advantage of the investment opportunity.

*Pursuit of Differing Strategies.* At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts.

*Selection of Brokers/Dealers.* Portfolio managers may be able to select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or account that they supervise. In addition to executing trades, some brokers and dealers provide portfolio managers with brokerage and research services (as those terms are defined in Section 28(e) of the Securities Exchange Act of 1934), which may result in the payment of higher brokerage fees than might have otherwise been available. These services may be more beneficial to certain funds or accounts than to others. Although the payment of brokerage commissions is subject to the requirement that the portfolio manager determine in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the fund, a portfolio manager's decision as to the selection of brokers and dealers could yield disproportionate costs and benefits among the funds and/or accounts that he or she manages.

*Use of Leverage.* During periods in which the Fund is using leverage, the fees paid to the Investment Manager, which may directly or indirectly affect the portfolio manager's compensation, for investment advisory services will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund's Total Assets, including assets attributable to any Borrowings and/or to any Preferred Shares, which may create an incentive for the portfolio manager to leverage the Fund or to leverage using strategies that increase the Investment Manager's fee.

*Variation in Compensation.* A conflict of interest may arise where the financial or other benefits available to the portfolio manager differ among the funds and/or accounts that he or she manages. If the structure of the Investment Manager's management fee and/or the portfolio manager's compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. The portfolio manager might be motivated to favor funds and/or accounts in which he or she has an interest or in which the investment advisor and/or its affiliates have interests. Similarly, the desire to maintain or raise assets under management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio

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manager to lend preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager.

*Related Business Opportunities.* The Investment Manager or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of fund and/or accounts that provide greater overall returns to the Investment Manager and its affiliates.

**(a)(3) Portfolio Manager Compensation as of November 30, 2012.**

The Investment Manager is 100% employee owned, which gives its personnel a direct stake in the success of the firm. In addition to a share in firm ownership, this compensation program includes a salary commensurate with experience and a performance-based bonus.

The overall compensation structure for the Fund’s portfolio managers is based on three components: (a) base remuneration; (b) discretionary performance-based bonus; and (c) profit participation.

Portfolio managers are compensated on pre-tax investment performance versus both the applicable benchmark and peer group as measured on a one-, three- and five-year horizon equally weighted. For these purposes, the benchmark for the Fund is a blend of the J.P. Morgan GBI-EM Global Diversified Bond Index, the J.P. Morgan EMBI Global Diversified Bond Index and the J.P. Morgan Corporate Emerging Markets Bond Index. Analysts are compensated on credit performance versus the applicable benchmark for the same periods. All employees will also participate in firm profit-sharing.

**(a)(4) Dollar Range of Securities Owned as of November 30, 2012.**

| <u>Portfolio Managers</u> | <u>Dollar Range of the Registrant’s Securities Owned by the Portfolio Managers</u> |
|---------------------------|--|
| Peter J. Wilby, CFA       | Over \$1,000,000   |
| James E. Craige, CFA      | Over \$1,000,000   |
| Pablo Cisilino            | \$100,001 - \$500,000  |
| David A. Oliver, CFA      | \$100,001 - \$500,000  |
| David Scott               | \$0  |
| David Griffiths           | \$0  |
| Angus Halkett             | \$0  |
| William Perry             | \$0  |

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers.**

None

**Item 10. Submission of Matters to Vote of Security Holders.**

There have been no material changes to the procedures by which shareholders may recommend nominees to the Registrant’s Board of Trustees, where those changes were implemented after the Registrant last provided disclosure in response to the requirements of Item 407(c)(2) of Regulation S-K, or this Item.

**Item 11. Controls and Procedures.**

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- (a) The registrant's principal executive officer and principal financial officer have concluded that the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended) are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.
  
- (b) There was no change in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940, as amended) during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 12. Exhibits.**

(a)(1) Registrant's Code of Ethics for Senior Financial Officers, which is the subject of the disclosure required by Item 2 of Form N-CSR, was filed as Exhibit 12(a)(1) to the Registrant's Certified Shareholder Report on Form N-CSR, File No. 811-22473, on February 6, 2012.

(a)(2) The certifications required by Rule 30a-2(a) of the Investment Company Act of 1940, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto as Ex-99.Cert.

(a)(3) Not applicable.

(b) A certification for the Registrant's Principal Executive Officer and Principal Financial Officer, as required by Rule 30a-2(b) of the Investment Company Act of 1940, as amended, and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto as Ex-99.906Cert.

(c) The Proxy Voting Policies and Procedures are attached hereto as Ex99. Item 7.



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Stone Harbor Emerging Markets Income Fund

By: /s/ Peter J. Wilby  
**Peter J. Wilby**  
**President/Principal Executive Officer**

Date: February 7, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Stone Harbor Emerging Markets Income Fund

By: /s/ Peter J. Wilby  
**Peter J. Wilby**  
**President/Principal Executive Officer**

Date: February 7, 2013

By: /s/ James J. Dooley  
**James J. Dooley**  
**Treasurer, Chief Financial Officer/  
Principal Financial Officer**

Date: February 7, 2013