Stone Harbor Emerging Markets Income Fund
Form N-CSR
February 06, 2012
Table of Contents

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:

John M. Loder, Esq.

Ropes & Gray LLP

One International Place

Boston, MA 02110-2624

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

Date of fiscal year end: November 30

Date of reporting period: December 22, 2010   November 30, 2011

Table of Contents

Item 1. **Report to Stockholders.**

Table of Contents

Table of Contents

Distribution Policy

November 30, 2011

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.

Table of Contents

Table of Contents

Stone Harbor Emerging Markets Income Fund

Shareholder Letter

November 30, 2011 (Unaudited)

Dear Investor,

The Stone Harbor Emerging Markets Income Fund (EDF) began operations on December 22, 2010. The 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 market countries, including investments in sovereign external debt, sovereign local market debt, and corporate debt from emerging market issuers.

On balance, 2011 has been a challenging year for credit-focused investors. Hopes for a continuation of 2010 s economic recovery waned as convincing signs of a slowdown in global growth surfaced by mid-year. Markets became overwhelmed by the risks of fiscal deficits in developed nations and the inability of politicians to offer acceptable solutions. Fears of European sovereign debt defaults and the capital insufficiency of the Continent s banks caused markets to become extremely volatile. Investors fled from risky credit-focused assets, seeking the safety of Treasuries and the US dollar.

While growth in emerging markets has slowed in line with weakness in developed countries, we continue to stand by our investment thesis that the growth advantage of most emerging market countries, as well as the fiscal and monetary policy flexibility they enjoy favors emerging markets debt investments over those in advanced economies. The weakness in emerging markets debt this year, particularly in local currency and corporate debt, has, in our view, created compelling income-generating investment opportunities. Integral to our investment process is our focus on identifying improving credits within the sovereign, corporate and local currency emerging bond markets.

We have learned over the years that, at times, it is beneficial to invest when others are selling, and to do so on the basis of intensive fundamental research. Our positions in EDF today have been taken with this view in mind. While markets have not proven all our convictions correct in this period, we believe that the fundamental value in our holdings will be realized over time. We appreciate your trust in our ability to navigate these difficult markets and hope you will continue to find our Fund to be an attractive vehicle to capitalize on growth economies in a low interest rate environment.

Performance Review

The total return on net asset value (NAV) of EDF from inception on December 22, 2010 to November 30, 2011 was -0.47%. On a market value basis[1], the Fund s total return was -3.41% for the same period. We believe this result was the product of a challenging external environment in which returns on the three major sectors of the emerging markets (EM) debt asset class reflected investors fears about a global downturn in growth, as well as the potential for policy errors in Europe, the US and China, concerns that grew more acute in the final months of the year. EDF continued to invest in the external sovereign, corporate and local currency emerging markets debt sectors, shifting allocations between these sectors based on the portfolio management team s views on risks and opportunities. From the inception of EDF until fiscal year-end November 30, 2011, the returns on these sectors were 6.45%, 1.66%, and 1.46%, respectively[2].

For the reporting period[3], the decisions that most impacted EDF s performance were our allocations to corporate and local currency debt in several key countries. Due to the market downturns in September and November, these allocations reduced the overall return of the Fund. We also employed leverage to enhance returns. During the performance period, leverage consisted primarily of borrowings using short-term reverse repurchase agreements through which the Fund loans securities with the obligation to repurchase them at a later date at a fixed price. The implied borrowing costs of the repurchase agreements averaged approximately 0.62% per annum. The level of gross leverage reached a maximum of 23.4% of total assets in February and a minimum of 14.7% in July. By the end of the reporting period, leverage was 21.3%. The Fund management team varied borrowing levels to reflect the team s outlook on EM debt markets, increasing borrowings when it felt opportunities had increased and reducing borrowings when, in the team s judgment, macroeconomic risks had risen.

Market Review

Total returns for emerging markets debt reflected how global investors reconciled strong emerging market fundamentals with the weakening outlook for many advanced countries, particularly those in Europe s southern periphery. Until August, total returns in all three market segments were strong and positive. While growth slowed in line with the global trend, EM countries in aggregate continued to exhibit strength in frequently reported industrial production figures; growth rates through the end of the second quarter of 2011 suggested that most EM economies remained significantly more robust than those in the developed world. Importantly, China registered a growth rate of 9.6% in the second quarter[4]. Lower fiscal deficits in most EM countries and greater policy flexibility than in advanced economies, also supported EM debt markets throughout this period.

Among the three sectors of emerging markets debt, local currency debt was the clear outperformer until the end of August, albeit with bouts of volatility in April, June and July. See Figure 1, which maps the progression of total returns for the three market sectors since inception of the Fund. By mid-August, markets began to worry more intensely about a return to recession in the US and Europe s debt crisis reached new depths. EM

Table of Contents

Stone Harbor Emerging Markets Income Fund Shareholder Letter

November 30, 2011 (Unaudited)

foreign exchange markets also reacted violently to Standard & Poor s downgrade of US Treasury debt ratings on August 5, but EM currencies and local bond prices remained relatively firm. External sovereign bond prices also remained relatively stable. It was only in the corporate bond segment that a downward move in bond prices that began at the end of July continued through August and extended losses in September. The sub-sector of the market with the worst returns was non-investment grade corporate debt.[5]

Figure 1. Total returns for sectors of emerging markets debt: external sovereign, corporate and local currency, December 22, 2010 to November 30, 2011.[6]

Source: JP Morgan Chase, Bloomberg.

The trigger for the sharp downturn in all sectors of EM debt in September was the rise in concerns relating to the solvency of large European banks, notably those in France, but also in Italy, Spain and Austria. Despite official intervention such as the Fed s Operation Twist,[7] and the reestablishment of FX swap lines between G-10 central banks, market participants scaled back their risk exposure, including EM currencies and fixed income markets. Our benchmark for EM local currency bonds declined -9.83% in September, the largest drawdown since October 2008 and the second biggest loss since the index began in 2003.[8] brunt of the decline was due to weaker EM currencies relative to the US dollar, as local interest rates remained relatively stable.

Corporate debt from emerging markets also fared poorly in this environment. Idiosyncratic developments in certain credits in China and Kazakhstan were the initial drivers of weakness in corporate debt, but the sell-off in September was broad-based, characterized by selling of both high yield and investment grade corporate credits, but particularly of non-investment grade bonds (those rated below Baa3/BBB). While we believe that many EM companies had demonstrated their ability to diversify funding sources and maintain liquidity during market downturns in the 2007-2008 financial crisis, this fact seemed to provide little support. The broad market for corporate bonds from emerging markets fell nearly 9% in total return from early August to early October, while the non-investment grade segment declined by over 17% in the same period.[9]

During the market s downturn in August and September, rising US Treasury bond prices supported external debt markets. The fact that most emerging countries had little need to access capital markets for funding provided technical support, but credit spreads, which reflect the market s assessment of default risk (higher spread = more default risk), increased in all countries that comprise the JP Morgan EMBI Global Diversified. The reason for the widening, in our view, was not deterioration in fundamental credit quality, but rather the speed of change of US Treasury yields and risk sentiment. We believe that the credit spread widening created attractive investment opportunities.

Table of Contents

Stone Harbor Emerging Markets Income Fund

Shareholder Letter

November 30, 2011 (Unaudited)

EDF is positioned well, in our opinion, for an eventual market recovery. Our current view is that the sovereign debt crisis in Europe will eventually be solved by European policymakers, who slowly are coming to the conclusion that the concept of a common currency is untenable without consolidation of fiscal authority across the euro zone s member states. Clearly, the risks of policy error remain significant. We also believe that the United States economy is on its way toward a slow recovery; US interest rates are likely to remain low for an extended period of time. China s ability to engineer a soft landing for its economy, we think, will be significantly aided by policies that favor continued, unprecedented levels of government investment to support growth, particularly in the upcoming year which features a transition in political leadership. While we expect growth in EM countries to slow from last year s pace, our forecasts suggest that growth, as well as the policy flexibility in many EM countries will continue to strongly support the case for investing in the EDF portfolio.

The risks to our relatively benign outlook on emerging market debt, outlined in our semi-annual letter six months ago, remain in place today:

1. Europe fails to provide a comprehensive solution to the sovereign debt and financial crises in Italy, Spain, Greece, Ireland and Portugal.
2. The US economy slips back into recession.
3. China s economy weakens, producing a hard landing of sub 7% annual growth rate. Commodity prices drop sharply in response.
4. EM policy makers engage in trade wars in an effort to counteract the economic effects of a falling US dollar.
5. EM central banks fall behind in their efforts to curb inflation.
6. US interest rates move sharply higher reflecting rising fiscal deficits.
7. Conflict in the Middle East leads to oil supply shocks.

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 allocation and security selection processes. 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.

The reduction in our allocation to local currency debt reflects the potential for rising macroeconomic tail risks, particularly in Europe. However, we believe that the most likely scenarios going forward favor a recovery in emerging markets debt given the current growth and credit dynamics, particularly when compared to advanced economies. We continue to believe that investing in EDF offers a very attractive means of capitalizing on further improvements in credit quality in emerging markets.

We thank you for your trust in our ability to maneuver these difficult markets and look forward to reporting on EDF in the next six months.

Sincerely,

Thomas W. Brock

Chairman of the Board of Trustees

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

[2] *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 JP Morgan 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. 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.*

[3] *The reporting period is defined as inception of EDF on December 22, 2010 through November 30, 2011.*

[4] *Source: JP Morgan Chase, Bloomberg.*

[5] *As defined above, emerging markets corporate debt is represented by JP Morgan CEMBI Broad Diversified.*

[6] *As defined above, emerging markets external sovereign debt is represented by JP Morgan EMBI Global Diversified, emerging markets corporate debt by JP Morgan CEMBI Broad Diversified and emerging markets local currency debt by JP Morgan GBI-EM Global Diversified. Source: JP Morgan Chase, Bloomberg.*

[7] *Operation Twist is a policy, originally from the 1960 s but revived in September 2011, implemented by the Federal Reserve, which involves the selling of short-term Treasuries by the central bank in exchange for the same amount in longer-term bonds, thereby lowering longer-term interest rates.*

[8] *As defined above, emerging markets local currency debt is represented by JP Morgan GBI-EM Global Diversified.*

[9] *As defined above, emerging markets corporate debt is represented by JP Morgan CEMBI Broad Diversified. Source: JP Morgan Chase, Bloomberg.*

Table of Contents

Stone Harbor Emerging Markets Income Fund — Summary of Portfolio Holdings

November 30, 2011 (Unaudited)

Fund Details	
Market Price	$22.38
Net Asset Value (NAV)	$22.03
Premium/(Discount)	1.59%
Current Distribution Rate[1]	9.65%
Net Assets ($ in millions)	$343

Country Allocation (as a % of total net assets)

Country Breakdown	**% of TNA**
Mexico	16.27%
Brazil	16.23%
Argentina	16.14%
South Africa	14.18%
Venezuela	10.51%
Ukraine	7.54%
Iraq	6.50%
Russia	6.29%
Colombia	4.73%
Indonesia	3.81%
Kazakhstan	2.39%
Malaysia	2.09%
China	1.61%
Jamaica	0.89%
Peru	0.89%
Lithuania	0.72%
Poland	0.71%
Greece	0.62%
United Arab Emirates	0.57%
Dominican Republic	0.56%
Barbados	0.50%
Turkey	0.46%
Croatia	0.43%
Ghana	0.35%
South Korea	0.21%
Philippines	0.17%
Uruguay	0.15%
India	0.05%
Total	**115.57%**
Money Market Mutual Funds	**5.57%**
Liabilities in Excess of Other Assets	**-21.14%**
Total Net Assets	**100.00%**

Security Type Allocation[2]

Sector Allocation[2]

Sovereign Local	36.1%
Sovereign External	30.3%
Corporate	22.0%
Net Cash	6.0%

Regional Breakdown[2]

Latin America	55.1%
Europe	15.3%
Asia	11.6%
Africa	6.4%
Middle East	5.6%
Net Cash	6.0%

Sovereign Local Currency Breakdown[2]

Argentine Peso	0.8%
Brazilian Real	9.0%
Colombian Peso	3.8%
Mexican Peso	9.5%
Malaysian Ringgit	1.7%
Philippine Peso	0.1%
South African Rand	11.2%
Total	36.1%

[1] *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.*

[2] *Based on managed assets 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. The amounts do not include the $25,000,000 notional value of a credit default swap with unrealized depreciation of $465,173.*

Table of Contents

Stone Harbor Emerging Markets Income Fund

Growth of $10,000 Investment

November 30, 2011 (Unaudited)

Comparison of Change in Value of $10,000 Investment in Stone Harbor Emerging Markets Income Fund and the JP Morgan Emerging Market Bond Global Diversified Index.

The JP Morgan Emerging Market Bond Global Diversified Index is a uniquely-weighted version of the EMBI Global Index, 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 Index covers 196 instruments across 28 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 Index.

Average Annual Total Returns as of November 30, 2011

	1 Month	3 Months	6 Months	Year-to Date	Since Inception	Inception Date
Stone Harbor Emerging Markets Income Fund - NAV	-3.35%	-8.12%	-7.02%	-0.22%	-0.47%	12/22/10
Stone Harbor Emerging Markets Income Fund Market Price	-5.79%	-6.23%	-6.30%	-3.41%	-3.41%	
JP Morgan EMBI Global Diversified Index	-0.88%	-1.02%	2.25%	6.15%	6.45%	
JP Morgan CEMBI Broad Diversified Index	-1.52%	-2.18%	-2.06%	1.46%	1.66%	
JP Morgan GBI-EM Global Diversified Index	-3.41%	-8.04%	-6.32%	-0.29%	1.46%	

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.

Table of Contents

Stone Harbor Emerging Markets Income Fund — Report of Independent Registered 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, 2011, and the related statements of operations, cash flows, and changes in net assets and the financial highlights for the period December 22, 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 audit.

We conducted our audit 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 audit 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, 2011, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audit provides 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, 2011, and the results of its operations, its cash flows, the changes in its net assets and the financial highlights for the period December 22, 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 27, 2012

Table of Contents

Stone Harbor Emerging Markets Income Fund

Statement of Investments

November 30, 2011

	Currency	Rate	Maturity Date	Principal Amount *	Market Value (Expressed in U.S. $)
SOVEREIGN DEBT OBLIGATIONS - 54.50%					
Argentina - 13.46%					
Republic of Argentina:					
	ARS	2.000%	09/30/2014	14,130,375	$ 2,578,784(1)
	USD	7.000%	10/03/2015	2,818,135	2,451,621(2)
	ARS	5.830%	12/31/2033	2,254,203	472,537 (1)
	EUR	7.820%	12/31/2033	15,450,733	12,352,946(1)
	EUR	7.820%	12/31/2033	31,597,713	25,634,054
	USD	8.280%	12/31/2033	882,576	638,765(3)
	USD	8.280%	12/31/2033	1,317,278	922,095(2)
	EUR	0.000%	12/15/2035	8,299,166	1,091,746(1)
					46,142,548
Brazil - 0.97%					
Republic of Brazil:					
	USD	4.875%	01/22/2021	1,800,000	1,995,750(2)
	USD	5.625%	01/07/2041	1,181,000	1,339,549(2)
					3,335,299
Croatia - 0.43%					
Croatian Government	USD	6.375%	03/24/2021	1,637,000	1,461,022(2)(4)
Ghana - 0.35%					
Republic of Ghana	USD	8.500%	10/04/2017	1,077,000	1,192,778(2)(5)
Greece - 0.62%					
Hellenic Republic Government Bond:					
	EUR	5.900%	10/22/2022	2,000,000	691,313
	EUR	4.700%	03/20/2024	2,000,000	700,985
	EUR	4.600%	09/20/2040	2,250,000	751,686
					2,143,984
Lithuania - 0.72%					
Republic of Lithuania:					
	USD	7.375%	02/11/2020	180,000	192,600(5)
	USD	6.125%	03/09/2021	2,362,000	2,291,140(2)(5)
					2,483,740
Malaysia - 2.09%					
Malaysian Government:					

	MYR	4.262%	09/15/2016	16,400,000	5,381,274
	MYR	4.012%	09/15/2017	5,500,000	1,780,557
					7,161,831
Mexico - 12.96%					
Mexican Bonos:					
	MXN	8.500%	12/13/2018	121,000,000	10,302,031
	MXN	7.750%	05/29/2031	216,230,000	16,504,459
	MXN	10.000%	11/20/2036	144,160,000	13,437,140
United Mexican States	USD	5.750%	10/12/2110	4,040,000	4,161,200 (2)
					44,404,830

Table of Contents

Stone Harbor Emerging Markets Income Fund

Statement of Investments

November 30, 2011

	Currency	Rate	Maturity Date	Principal Amount *	Market Value (Expressed in U.S. $)
Philippines - 0.17%					
Republic of Philippines	PHP	4.950%	01/15/2021	26,000,000	$ 590,096
Poland - 0.71%					
Republic of Poland	USD	5.000%	03/23/2022	2,465,000	2,418,781(2)
Russia - 4.13%					
Russian Federation:					
	USD	11.000%	07/24/2018	3,041,000	4,204,183(2)(5)
	USD	12.750%	06/24/2028	5,704,000	9,939,220(2)(5)
					14,143,403
South Africa - 14.18%					
Republic of South Africa:					
	USD	6.875%	05/27/2019	570,000	684,712
	ZAR	7.250%	01/15/2020	135,600,000	16,093,798
	ZAR	7.000%	02/28/2031	311,000,000	31,800,404
					48,578,914
Ukraine - 1.05%					
Ukraine Government:					
	USD	6.875%	09/23/2015	2,000,000	1,835,000(2)(4)
	USD	7.750%	09/23/2020	2,000,000	1,750,000(2)(5)
					3,585,000
Uruguay - 0.15%					
Republic of Uruguay	USD	9.250%	05/17/2017	385,000	504,350
Venezuela - 2.51%					
Republic of Venezuela	USD	12.750%	08/23/2022	9,791,600	8,616,608(2)(5)
TOTAL SOVEREIGN DEBT OBLIGATIONS					186,763,184
(Cost $192,205,583)					
BANK LOANS - 3.72%(6)					
Brazil - 0.53%					

Virgolino de Oliveira - GVO Loan	USD	5.273%	03/11/2015	1,882,353	1,811,765[1]
Indonesia - 3.19%					
PT Bumi Tranche A	USD	12.000%	03/02/2012	7,157,442	6,083,826[15]
PT Bumi Tranche B	USD	12.000%	03/02/2012	5,712,558	4,855,674[15]
					10,939,500
TOTAL BANK LOANS					12,751,265
(Cost $14,752,353)					
CORPORATE BONDS - 31.00%					
Argentina - 0.65%					
Capex SA	USD	10.000%	03/10/2018	1,413,000	1,151,595[4]

Table of Contents

Stone Harbor Emerging Markets Income Fund

Statement of Investments

November 30, 2011

	Currency	Rate	Maturity Date	Principal Amount *	Market Value (Expressed in U.S. $)
Empresa Distribuidora Y Comercializadora Norte:					
	USD	9.750%	10/25/2022	500,000	$ 410,000(5)
	USD	9.750%	10/25/2022	511,000	419,020(4)
Tarjeta Naranja SA	USD	9.000%	01/28/2017	250,000	241,241(4)
					2,221,856
Barbados - 0.50%					
Columbus International, Inc.	USD	11.500%	11/20/2014	1,639,000	1,704,560(5)
Brazil - 3.67%					
Banco Cruzeiro do Sul SA	USD	8.875%	09/22/2020	2,372,000	1,612,960(5)
BR Malls International Finance Ltd.	USD	8.500%	01/21/2049	512,000	531,200(4)
General Shopping Finance Ltd.	USD	10.000%	11/09/2015	1,239,000	1,251,390(4)
Hypermarcas SA	USD	6.500%	04/20/2021	2,000,000	1,760,000(4)
Mirabela Nickel Ltd.	USD	8.750%	04/15/2018	297,000	265,815(4)
NET Servicos de Comunicacao SA	USD	7.500%	01/27/2020	508,000	581,660
Odebrecht Drilling Norbe VIII/IX Ltd.	USD	6.350%	06/30/2021	1,695,000	1,737,375(5)
OGX Petroleo e Gas Participacoes SA:					
	USD	8.500%	06/01/2018	1,000,000	960,000(5)
	USD	8.500%	06/01/2018	2,332,000	2,238,720(4)
Virgolino de Oliveira Finance Ltd.	USD	10.500%	01/28/2018	1,700,000	1,640,500(5)
					12,579,620
China - 1.61%					
Country Garden Holdings Co. Ltd.	USD	11.125%	02/23/2018	750,000	611,250(4)
Evergrande Real Estate Group Ltd.	USD	13.000%	01/27/2015	260,000	201,500(5)
Kaisa Group Holdings Ltd.	USD	13.500%	04/28/2015	1,192,000	959,560(5)
MIE Holdings Corp.	USD	9.750%	05/12/2016	1,532,000	1,363,480(4)
Texhong Textile Group Ltd.	USD	7.625%	01/19/2016	1,000,000	730,000(5)
West China Cement Ltd.	USD	7.500%	01/25/2016	2,000,000	1,640,000(4)
					5,505,790
Colombia - 0.30%					
Emgesa SA ESP	COP	8.750%	01/25/2021	911,000,000	497,391(4)
Empresas Publicas de Medellin ESP	COP	8.375%	02/01/2021	1,030,000,000	549,752(4)
					1,047,143
Dominican Republic - 0.56%					
Cap Cana SA:					
	USD	10.000%	04/30/2016	3,341,111	668,222(5)(7)
	USD	10.000%	04/30/2016	3,621,970	1,267,690(5)(7)
					1,935,912

India - 0.05%					
Vedanta Resources PLC	USD	9.500%	07/18/2018	200,000	180,000(5)
Indonesia - 0.62%					
Bakrie Telecom Pte Ltd.	USD	11.500%	05/07/2015	1,876,000	1,181,880(5)
Berau Capital Resources Pte Ltd.	USD	12.500%	07/08/2015	100,000	107,000(5)
BLT Finance BV	USD	7.500%	05/15/2014	1,098,000	433,710(5)
Bumi Investment Pte Ltd.	USD	10.750%	10/06/2017	200,000	196,000(5)
PT Adaro Indonesia	USD	7.625%	10/22/2019	200,000	212,000(5)
					2,130,590

Table of Contents

Stone Harbor Emerging Markets Income Fund — Statement of Investments

November 30, 2011

	Currency	Rate	Maturity Date	Principal Amount *	Market Value (Expressed in U.S. $)
Jamaica - 0.89%					
Digicel Group Ltd.	USD	9.125%	01/15/2015	3,070,000	$ 3,039,300(4)
Kazakhstan - 2.39%					
BTA Bank JSC	USD	10.750%	07/01/2018	9,526,945	3,143,892(5)(8)
KazMunayGas National Co.:					
	USD	8.375%	07/02/2013	991,000	1,050,460(5)
	USD	9.125%	07/02/2018	309,000	372,345(4)
	USD	6.375%	04/09/2021	208,000	219,960(4)
Zhaikmunai LLP	USD	10.500%	10/19/2015	3,441,000	3,389,385(5)
					8,176,042
Mexico - 3.31%					
BBVA Bancomer SA	USD	4.500%	03/10/2016	404,000	399,960(5)
Cemex Espana Luxembourg	USD	9.250%	05/12/2020	1,110,000	765,900(5)
Cemex SAB de CV:					
	USD	5.369%	09/30/2015	3,784,000	2,535,280(1)(4)
	USD	9.000%	01/11/2018	1,260,000	919,800(5)
	USD	9.000%	01/11/2018	2,983,000	2,177,590(4)
Geo Maquinaria	USD	9.625%	05/02/2021	5,033,960	4,530,564(4)
					11,329,094
Peru - 0.89%					
Inkia Energy Ltd.	USD	8.375%	04/04/2021	3,000,000	3,045,000(4)
Russia - 2.16%					
Metalloinvest Finance Ltd.	USD	6.500%	07/21/2016	2,384,000	2,223,080(4)
Russian Agricultural Bank OJSC Via RSHB Capital SA	USD	7.750%	05/29/2018	3,000,000	3,255,000(4)
Vimpel Communications Holdings BV	USD	7.504%	03/01/2022	490,000	427,525(4)
Vimpel Communications Via VIP Finance Ireland Ltd. OJSC	USD	6.493%	02/02/2016	1,600,000	1,504,000(5)
					7,409,605
South Korea - 0.21%					
Export-Import Bank of Korea	USD	4.375%	09/15/2021	715,000	705,991
Turkey - 0.46%					
Yuksel Insaat AS	USD	9.500%	11/10/2015	2,152,000	1,581,720(5)
Ukraine - 4.16%					
Ferrexpo Finance PLC	USD	7.875%	04/07/2016	2,416,000	2,186,480(4)

Metinvest BV	USD	8.750%	02/14/2018	2,268,000	1,978,830(4)
MHP SA	USD	10.250%	04/29/2015	1,410,000	1,304,250(5)
Mriya Agro Holding PLC	USD	10.950%	03/30/2016	4,491,000	4,086,810(4)
National JSC Naftogaz of Ukraine	USD	9.500%	09/30/2014	5,000,000	4,693,750(2)
					14,250,120
United Arab Emirates - 0.57%					
Dubai Holding Commercial Operations MTN Ltd.:					
	EUR	4.750%	01/30/2014	150,000	168,299
	GBP	6.000%	02/01/2017	1,550,000	1,787,367
					1,955,666