Stone Harbor Emerging Markets Income Fund
Form N-CSRS
August 07, 2018

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)

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(Name and address of agent for service)

With copies To:

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

Date of fiscal year end: November 30

Date of reporting period: May 31, 2018

Item 1. **Report to Stockholders.**

Distribution Policy
May 31, 2018

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

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

Shareholders should not draw any conclusions about the Fund's investment performance from the amount of these distributions or from the terms of the Plan. The Fund's total return performance on net asset value is presented in its financial highlights table.

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

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Stone Harbor Emerging Markets Income Fund Shareholder Letter

May 31, 2018 (Unaudited)

Dear Investor,

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

Our investment thesis is straightforward - despite periods of high market volatility, we believe EM debt markets continue to offer attractive investment opportunities for total return investors. That investment thesis was tested during the first six months of the Fund's fiscal year ended May 31, 2018 as rising U.S. interest rates and U.S. Dollar volatility combined to limit returns in EM debt. Fundamentals in EM economies continue to be strong in our view. We believe most EM countries maintain prudent debt levels and substantially lower fiscal deficits relative to the developed world. Furthermore, GDP growth of EM countries, taken as a group continues to expand at a faster rate than in the developed world. In addition, EM debt still offers higher yields than advanced economy debt, even though EMs often have better fundamentals in most cases, based on our analysis.

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

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

Performance Review

The total return on net asset value (NAV) of EDF for the six months ended May 31, 2018 was -5.70% (net of expenses). For the same period, the Fund maintained an average premium to its NAV of 7.95%(1). Market tracking indices for the three sectors of EM debt[2] — external sovereign debt, local currency debt, and corporate debt — delivered total returns of -3.38%, -1.74% and -2.15%, respectively, during the reporting period.

Our allocation to local currency denominated sovereign debt ranged between 30% and 39% during the period. While the local currency debt index outperformed USD sovereign debt, our allocations to local currency debt in Brazil and Turkey detracted from the Fund's overall returns during the period. USD sovereign debt was the worst performing sector in emerging markets during the period, based largely on its high interest rate sensitivity in a period of rising U.S. Treasury rates. Our position in Argentina detracted from our performance. The Fund's allocation to USD denominated sovereign debt ranged from 49% to 61%. The emerging markets corporate sector also struggled with rising interest rates. Our corporate allocation ranged from 9% to 12% during the period and had a neutral impact on overall performance.

Our exposure to selected oil credits was a contributor to Fund performance during the reporting period. Month-end oil prices ranged from $57 - $67 per barrel, increasing throughout the reporting period. Our positions in Ghana and Iraq contributed to Fund returns.

Our positions in select other countries also had an impact on Fund performance, both positive and negative. Local currency positions in Russia and South Africa were positive contributors as monetary discipline in both countries and high yields in South Africa attracted investors to their local currency denominated investments. On the other hand, our overweight position in Argentina's hard currency debt was a negative performer. The market's patience with the pace of reforms from the Macri administration was tested. Late in the Fund's reporting period Argentina approached the IMF and received a $50 billion aid package.

Throughout the reporting period, leverage consisted primarily of short-term reverse repurchase agreements through which the Fund borrowed funds by selling securities under the obligation to repurchase them at a later date at a fixed price. The implied borrowing costs of the repurchase agreements averaged approximately 2.24% per annum for the fiscal year. The level of gross leverage reached a maximum of 33.3% of total assets on May 22, 2018 and a minimum of 21.5% on December 5, 2017. By the end of the reporting period, leverage was 33%. 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 risk, increasing borrowings when it felt opportunities had improved and reducing borrowings when, in the team's judgment, macroeconomic risks had risen.

The Fund uses various derivative instruments to implement its strategies. These derivatives are utilized to manage the Fund's credit risk, interest rate risk, foreign exchange risk and efficiently gain certain investment exposure. These derivative positions may increase or decrease the Fund's exposure to these risks. At the end of the reporting period the Fund had net exposure to these derivatives of approximately $2.2 million. Over the course of the reporting period these derivative positions generated net realized loss of approximately $515 thousand and $773 thousand in unrealized appreciation for a net increase in operations of $258 thousand.

Stone Harbor Emerging Markets Income Fund Shareholder Letter

May 31, 2018 (Unaudited)

Market Review and Outlook

Macroeconomic developments in advanced economies are important inputs into our assessment of the outlook for EM debt returns. The impact of developments outside the emerging markets on emerging market valuations has been a critical variable in the performance of emerging market assets since the end of the 2008 financial crisis. These factors, including GDP growth rates and interest rates in the developed world provide a contrast with the generally higher yields and stronger fundamentals available in emerging markets, attracting investor attention and generating positive returns. Importantly, these same developed market factors can directly impact emerging market fundamentals. Analyzing these impacts is a key step in our investment process.

Our fundamental positive views on emerging markets remain intact. We continue to believe that many EM country growth rates will improve in the next 12 to 18 months. In addition to good growth and solid fundamentals, emerging markets debt assets continue to offer attractive valuations, in our opinion.

In the past, we have detailed some of the key risks to our constructive outlook for EM debt. Today, those risks seem to emanate from both developed and emerging market countries. The likelihood of increases in U.S. interest rates and the uncertainty surrounding the Trump administration’s policies, especially on trade are impacting the outlook for emerging markets. On the other hand, some risk factors impacting emerging markets have moderated over the Fund’s reporting period. As of the date of this report, the market has more clarity on short term interest rate policies from the U.S. Federal Reserve and the European Central Bank; China’s growth outlook has stabilized; and commodity prices have stabilized at higher levels. In assessing all these factors, our base case return scenarios for EM debt over the coming year remain positive. Our view derives from a disciplined investment process in which we review the ability and willingness of borrowers to repay their debts. We also assess whether current prices of EM bonds, currencies and local interest rates reflect adequate compensation for the risks the Fund is incurring. Based on this analysis, we believe that EM debt has the potential to generate attractive fixed income returns.

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

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

Sincerely,

Thomas K. Flanagan

Chairman of the Board of Trustees

(1) Performance on a market value basis, or at market price, will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods, returns at market price can also be 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) JPMorgan EMBI Global Diversified Index, JPMorgan GBI-EM Global Diversified Index, and JPMorgan CEMBI Broad Diversified Index.

Stone Harbor Emerging Markets Income Fund Summary of Portfolio Holdings

May 31, 2018 (Unaudited)

Fund Details	
Market Price	$13.99
Net Asset Value (NAV)	$12.86
Premium/(Discount)	8.79%
Current Distribution Rate[1]	15.44%
Net Assets (in millions)	$206

Country Allocation (as a % of Total Net Assets)[3] Country Breakdown	**%**
Brazil	14.93%
Ukraine	12.60%
Argentina	10.25%
Mexico	9.81%
Ecuador	8.90%
Turkey	7.92%
Indonesia	7.00%
Iraq	6.91%
Lebanon	5.84%
Egypt	5.29%
Nigeria	5.19%
Russia	5.01%
South Africa	4.86%
Gabon	4.28%
Ghana	4.23%
Angola	4.16%
Ivory Coast	4.11%
Uruguay	3.21%
Jordan	3.07%
Venezuela	2.58%
Kenya	2.48%
Colombia	2.46%

Zambia	1.99%
Jamaica	1.84%
El Salvador	1.66%
Costa Rica	1.52%
Cameroon	1.48%
Kazakhstan	0.97%
Tunisia	0.84%
Pakistan	0.67%
Other Assets in Excess of Liabilities	**-46.06%**
Total Net Assets	**100.00%**

Security Type Allocation[2]

Sector Allocation[2]		**Regional Breakdown[2]**		**Sovereign Local Currency Breakdown[2]**	
Sovereign Local	27.69%	Latin America	39.08%	Brazilian Real	5.71%
Sovereign External	61.03%	Africa	22.36%	Colombian Peso	1.73%
Corporate	10.81%	Europe	18.08%	Indonesian Rupiah	3.55%
Cash & Equivalents/		Middle East	14.86%	Mexican Peso	3.63%
US Treasuries	0.47%	Asia	5.15%	Nigerian Naira	0.84%
		Cash & Equivalents/U.S.		Russian Ruble	3.40%
		Treasuries	0.47%	Turkish New Lira	3.32%