

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 Date	Principal Amount*	Market Value (Expressed in U.S. \$)
<b>SOVEREIGN DEBT OBLIGATIONS - 63.62%</b>					
<b>Argentina - 8.33%</b>					
<i>City of Buenos Aires Argentina</i>					
<i>Republic of Argentina:</i>	USD	9.950%	03/01/2017	1,249,000	\$ 1,061,650 <sup>(1)(2)</sup>
	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.*  
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**Table of Contents****Stone Harbor Emerging Markets Income Fund Statement of Investments**

November 30, 2012

	Currency	Rate	Maturity Date	Principal Amount*	Market Value (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

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### 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

See Notes to Financial Statements.

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

November 30, 2012

	Currency	Rate	Maturity Date	Principal Amount*	Market Value (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)

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

November 30, 2012

	Currency	Rate	Maturity Date	Principal Amount*	Market Value (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>

See Notes to Financial Statements.

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## Stone Harbor Emerging Markets Income Fund Statement of Investments

November 30, 2012

	Currency	Rate	Maturity Date	Principal Amount*	Market Value (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

*See Notes to Financial Statements.*  
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November 30, 2012

	Currency	Rate	Maturity Date	Principal Amount*	Market Value (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>



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### 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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November 30, 2012

				<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 (2)
	<i>Metinvest BV:</i>					
		USD	10.250%	05/20/2015	1,000,000	1,030,000 (3)
		USD	8.750%	02/14/2018	1,768,000	1,706,120 (2)
	<i>Mriya Agro Holding PLC</i>	USD	10.950%	03/30/2016	5,191,000	5,152,068 (2)
	<i>National JSC Naftogaz of Ukraine</i>	USD	9.500%	09/30/2014	5,000,000	5,137,500 (1)
						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 (3)
	<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 (1)
		USD	5.000%	10/28/2015	1,844,739	1,651,041 (1)
						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(1)(3)
<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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November 30, 2012

	Counterparty	Currency	Rate	Maturity Date	Principal Amount/Shares* (Expressed in U.S. \$)	Market Value (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**

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\* 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.

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

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

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%

See Notes to Financial Statements.  
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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
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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>

See Notes to Financial Statements.  
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## Stone Harbor Emerging Markets

## Income Fund

## Statement of Changes in Net Assets

	For the Year Ended November 30, 2012	For the Period December 22, 2010 (Inception) to 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 Year Ended November 30, 2012	For the Period December 22, 2010 (Inception) to 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 - Quoted and Unadjusted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant 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 in Securities	Balance as of November 30, 2011	Realized Gain/(Loss)*	Change in Unrealized Appreciation/ (Depreciation)*	Purchases	Sales	Transfer into Level 3**	Balance as of November 30, 2012	Net change in unrealized appreciation/

(depreciation)

included in the

Statement of

Operations

attributable to

Level 3

investments held at  
November 30, 2012

Stone Harbor Emerging Markets Income Fund																
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

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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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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:



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Derivative Risk Exposure	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	Unrealized appreciation on forward foreign currency contracts		Unrealized depreciation on forward foreign currency 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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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)