

TEMPLETON EMERGING MARKETS INCOME FUND
Form N-CSRS
May 02, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-07866

Templeton Emerging Markets Income Fund

(Exact name of registrant as specified in charter)

300 S.E. 2nd Street, Fort Lauderdale, FL 33301-1923
(Address of principal executive offices) (Zip code)

Craig S. Tyle, One Franklin Parkway, San Mateo, CA 94403-1906

(Name and address of agent for service)

Registrant's telephone number, including area code: (954) 527-7500

Date of fiscal year end: 8/31

Date of reporting period: 2/28/14

Item 1. Reports to Stockholders.

Contents

Semiannual Report		Financial Statements	17
Templeton Emerging Markets Income Fund	1	Notes to Financial Statements	20
Performance Summary	6	Annual Meeting of Shareholders	33
Important Notice to Shareholders	8	Dividend Reinvestment and Cash Purchase Plan	34
Financial Highlights and Statement of Investments	9	Shareholder Information	37

Semiannual Report

Templeton Emerging Markets Income Fund

Your Fund's Goals and Main Investments

Templeton Emerging Markets Income Fund seeks high, current income, with a secondary goal of capital appreciation, by investing, under normal market conditions, at least 80% of its total net assets in income-producing securities of sovereign or sovereign-related entities and private sector companies in emerging market countries.

Dear Shareholder:

We are pleased to bring you Templeton Emerging Markets Income Fund's semiannual report for the period ended February 28, 2014.

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

Performance Overview

For the six months under review, Templeton Emerging Markets Income Fund generated cumulative total returns of +7.35% based on market price and +4.09% based on net asset value. In comparison, U.S. dollar-denominated emerging market bonds, as measured by the J.P. Morgan (JPM) Emerging Markets Bond Index (EMBI) Global, posted a +5.88% cumulative total return in U.S. dollar terms for the same period.^{1, 2} You can find the Fund's long-term performance data in the Performance Summary on page 6.

Economic and Market Overview

Edgar Filing: TEMPLETON EMERGING MARKETS INCOME FUND - Form N-CSRS

The global economic recovery was mixed during the period under review. The recovery in emerging markets moderated after many economies had previously returned to and exceeded pre-crisis activity levels. Although some developed

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 10.

Semiannual Report | 1

*The Geographic Breakdown is a snapshot of the Fund on 2/28/14 and may not reflect ongoing repositioning or reinvestment of cash in the Fund.

**The Fund's supranational investment was denominated in the U.S. dollar.

***The Fund's euro area investment was in Slovenia.

What is a currency forward contract?

A currency forward contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency at a specific exchange rate on a future date.

economies, such as those of Australia and some Scandinavian countries, have also enjoyed relatively strong recoveries in the aftermath of the global financial crisis, growth in the G-3 (U.S., eurozone and Japan) continued to be slow by the standards of previous recoveries. As fears eased surrounding European sovereign debt, the possibility of another U.S. recession and a potential Chinese hard landing, financial market performance was positive. Improving sentiment, relatively strong fundamentals, and continued provision of global liquidity supported assets perceived as risky and equity markets performed well. Policymakers in the largest developed economies adjusted their unprecedented efforts to supply liquidity. Actions elsewhere in the world were mixed, with some policymakers less willing to reverse previous tightening efforts in response to the external environment.

Global financial market volatility was elevated at the beginning of the period as the U.S. federal government partially shut down and the U.S. Treasury approached its debt ceiling. As the government shutdown ended and the debt ceiling was raised, market volatility quickly subsided. Near period-end, investors became concerned with geopolitical issues surrounding rising tensions between Russia and Ukraine.

Fears of reductions in stimulative government policies contributed to periods of risk aversion, when credit spreads widened and assets perceived as risky sold off alternating with periods of heightened risk appetite, when spreads narrowed and investors again favored risk assets. Against this backdrop, extensive liquidity creation continued, in particular from the Bank of Japan's commitment to increase inflation and the European Central Bank's interest rate cut. Economic data among the largest economies remained inconsistent with continued predictions of a severe global economic slowdown.

During the period, the U.S. Federal Reserve Board (Fed) announced it would begin to reduce the size of its quantitative easing program. Pessimism about this policy contributed to emerging market declines as market participants changed their expectations of global liquidity conditions. When the Fed subsequently announced a further reduction in its bond buying program, market reaction was muted.

Investment Strategy

We invest selectively in bonds from emerging markets around the world to generate income for the Fund, seeking opportunities while monitoring changes in interest rates, currency exchange rates and credit risk. We seek to manage the Fund's exposure to various currencies and may use currency forward contracts.

Manager's Discussion

The Fund purchased investment-grade and subinvestment-grade hard currency-denominated sovereign debt that typically compensates for greater credit risk by offering higher yields relative to U.S. Treasury and European benchmark bonds. Spreads narrowed slightly between yields on sovereign credits and assets often considered safer, such as U.S. Treasuries, during the period. As financial markets began reflecting the underlying strength of emerging economies, many traditional emerging markets could borrow more cheaply than some eurozone members and, in several cases, U.S. states. U.S. dollar-denominated emerging market debt posted a +5.88% total return during the period, as measured by the JPM EMBI Global.^{1, 2} Overall, sovereign credit spreads narrowed 31 basis points (0.31 percentage points) during the period.² Regionally, Latin American sovereign debt posted a +4.37% total return, Asian debt +9.45%, and central and eastern European debt +5.45%.^{2,3}

As part of its investment strategy, the Fund used currency forward contracts to limit or add exposure to various currencies.

Latin America

The Fund's exposures to Latin American currencies and interest rate strategies were largely neutral for absolute performance, while credit exposures contributed. Economic growth in much of the region continued to be supported by domestic and external demand. Central banks in Mexico and Chile cut policy rates, while rates were hiked in Brazil. The Brazilian real appreciated 1.76% and the Mexican peso rose 0.81% against the U.S. dollar during the period.⁴ The Chilean peso fell 8.62% against the U.S. dollar during the period.⁴

Europe-Middle East-Africa (EMEA)

The Fund's EMEA credit exposures contributed to absolute performance, while currency positions were largely neutral. The euro appreciated 4.74% against the U.S. dollar during the period as the European Central Bank maintained its commitment to preserving the European Monetary Union.⁴ The Polish zloty appreciated 7.19% against the U.S. dollar during the period.⁴

Currency Breakdown

2/28/14

	% of Total Net Assets
Americas	97.4 %
U.S. Dollar	82.6 %
Brazilian Real	9.3 %
Mexican Peso	5.5 %
Middle East & Africa	4.7 %
Ghanaian Cedi	3.3 %
Nigerian Naira	1.4 %
Europe*	-0.8 %
Serbian Dinar	2.0 %
Polish Zloty	0.8 %
Ukrainian Hryvnia	0.1 %
Euro*	-3.7 %
Asia Pacific*	-1.3 %
Indonesian Rupiah	3.5 %
Sri Lankan Rupee	2.9 %
South Korean Won	1.0 %
Malaysian Ringgit	0.7 %
Japanese Yen*	-9.4 %

Edgar Filing: TEMPLETON EMERGING MARKETS INCOME FUND - Form N-CSRS

*A negative figure reflects net short exposure, designed to benefit if the value of the associated currency decreases. Conversely, the Fund's value would potentially decline if the value of the associated currency increases.

Semiannual Report | 3

Top 10 Countries

2/28/14

	% of Total Net Assets
Brazil	9.0 %
Ukraine	6.2 %
Mexico	5.6 %
Ghana	5.6 %
Hungary	5.3 %
Argentina	5.1 %
Kazakhstan	5.1 %
Sri Lanka	4.5 %
Serbia	3.9 %
Russia	3.7 %

4 | Semiannual Report

Asia

Overall, the Fund's exposure to Asian currencies was largely neutral for performance, as were interest rate strategies and sovereign credit exposures in the region. Most currencies in the region appreciated against the U.S. dollar during the period. Central bankers in Malaysia, South Korea and Australia kept policy rates constant, while rates were hiked in India and Indonesia during the period. Most of the currencies of these countries appreciated against the U.S. dollar. The Malaysian ringgit appreciated 0.25%, the South Korean won gained 3.99%, the Australian dollar rose 0.47% and the Indian rupee strengthened 6.60% against the U.S. dollar.⁴ The Indonesian rupiah fell 5.94% against the U.S. dollar during the period.⁴

With interest rates in the U.S. and Japan at historically low levels, significant central bank balance sheet expansion, and unprecedented fiscal expenditures that drove record funding needs, we remained cautious regarding U.S. dollar interest rate risk over the medium term. Because of the potentially detrimental effect of a steepening or rising U.S. Treasury yield curve on the value of dollar-denominated emerging market debt, we maintained net-negative exposure to the Japanese yen, through the use of currency forward contracts. Given the yen's historical tendency to depreciate against the dollar as yield spreads widen between U.S. and Japanese government bonds, net-negative yen positioning has the potential to implicitly hedge against the interest rate risk of U.S. dollar-denominated debt. This strategy was largely neutral for Fund performance during the reporting period.

Thank you for your continued participation in Templeton Emerging Markets Income Fund. We look forward to serving your future investment needs.

The foregoing information reflects our analysis, opinions and portfolio holdings as of February 28, 2014, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

The index is unmanaged and includes reinvested interest. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

1. Source: © 2014 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

2. Source: J.P. Morgan. Copyright 2014. JPMorgan Chase & Co. All rights reserved. J.P. Morgan is the marketing name for JPMorgan Chase & Co., and its subsidiaries and affiliates worldwide. Templeton Emerging Markets Income Fund (the Fund) is not sponsored, endorsed, sold or promoted by J.P. Morgan. The JPM EMBI Global (the Index) is created based on stated, established rules. The creation or use of the Index does not constitute a recommendation by J.P. Morgan of the Fund or a trade recommendation by J.P. Morgan. J.P. Morgan makes no representation or warranty, express or implied, with respect to the Fund, or the advisability of investing in securities generally, or in the Fund particularly, or the ability of the Index to track bond market performance. J.P. Morgan has no obligation to take the needs of the prospective purchasers or owners of the Fund into consideration in determining, composing or calculating the Index. J.P. Morgan is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the Fund. J.P. Morgan has no obligation or liability in connection with the administration, marketing or trading of the Fund. THE INDEX IS PROVIDED AS IS WITH ANY AND ALL FAULTS. J.P. MORGAN DOES NOT GUARANTEE THE AVAILABILITY, SEQUENCE, TIMELINESS, QUALITY, ACCURACY AND/OR THE COMPLETENESS OF THE INDEX AND/OR ANY DATA INCLUDED THEREIN, OR FROM ANY USE OF THE INDEX. J.P. MORGAN MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OF FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE INDEX OR ANY DATA INCLUDED THEREIN, OR FROM ANY USE OF THE INDEX. THERE ARE NO REPRESENTATIONS OR WARRANTIES WHICH EXTEND BEYOND THE DESCRIPTION ON THE FACE OF THIS DOCUMENT, IF ANY. ALL WARRANTIES AND REPRESENTATIONS OF ANY KIND WITH REGARD TO THE INDEX ARE DISCLAIMED INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY, QUALITY, ACCURACY, FITNESS FOR A PARTICULAR PURPOSE AND/OR AGAINST INFRINGEMENT AND/OR WARRANTIES AS TO ANY RESULTS TO BE OBTAINED BY AND/OR FROM THE USE OF THE INDEX. WITHOUT LIMITING ANY OF THE FOREGOING, TO THE FULLEST EXTENT PERMITTED BY LAW, IN NO EVENT SHALL J.P. MORGAN HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, DIRECT, INDIRECT, OR CONSEQUENTIAL DAMAGES, INCLUDING LOSS OF PRINCIPAL AND/OR LOST PROFITS, IN CONNECTION WITH THE INDEX AND/OR THE FUND EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

3. Regional returns are from subindexes of the JPM EMBI Global.

4. Source: FactSet. 2014 FactSet Research Systems Inc. All Rights Reserved. The information contained herein: (1) is proprietary to FactSet Research Systems Inc. and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither FactSet Research Systems Inc. nor its content providers are responsible for any damages or losses arising from any use of this information.

Performance Summary as of 2/28/14

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses. Capital gain distributions are net profits realized from the sale of portfolio securities. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses. Total returns do not reflect any sales charges paid at inception or brokerage commissions paid on secondary market purchases. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares.

Price and Distribution Information

Symbol: TEI		Change		2/28/14		8/31/13
Net Asset Value (NAV)	-\$	0.34	\$	14.24	\$	14.58
Market Price (NYSE)	+\$	0.06	\$	13.91	\$	13.85
Distributions (9/1/13 2/28/14)						
Dividend Income	\$	0.7445				
Long-Term Capital Gain	\$	0.1996				
Total	\$	0.9441				

Performance¹

		6-Month		1-Year		5-Year		10-Year
Cumulative Total Return ²								
Based on change in NAV ³	+	4.09 %		-2.29 %	+	111.20 %	+	156.83 %
Based on change in market price ⁴	+	7.35 %		-12.49 %	+	165.26 %	+	162.15 %
Average Annual Total Return ²								
Based on change in NAV ³	+	4.09 %		-2.29 %	+	16.13 %	+	9.89 %
Based on change in market price ⁴	+	7.35 %		-12.49 %	+	21.54 %	+	10.12 %
Average Annual Total Return (3/31/14) ⁵								
Based on change in NAV ³				-1.00 %	+	19.40 %	+	9.73 %
Based on change in market price ⁴				-5.18 %	+	15.12 %	+	9.75 %

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

Performance Summary *(continued)*

All investments involve risks, including possible loss of principal. Changes in interest rates will affect the value of the Fund's portfolio and its share price and yield. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the Fund adjust to a rise in interest rates, the Fund's share price may decline. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments of countries where the Fund invests. The Fund's investments in emerging market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to these markets' smaller size and lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation. The Fund's use of foreign currency techniques involves special risks as such techniques may not achieve the anticipated benefits and/or may result in losses to the Fund. Also, as a nondiversified investment company, the Fund may invest in a relatively small number of issuers and, as a result, be subject to a greater risk of loss with respect to its portfolio securities. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results.

1. The Fund has a fee waiver associated with its investments in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.
2. Total return calculations represent the cumulative and average annual changes in value of an investment over the periods indicated. Six-month return has not been annualized.
3. Assumes reinvestment of distributions based on net asset value.
4. Assumes reinvestment of distributions based on the dividend reinvestment and cash purchase plan.
5. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.

Important Notice to Shareholders

Share Repurchase Program

The Fund's Board previously authorized the Fund to repurchase up to 10% of the Fund's outstanding shares in open-market transactions, at the discretion of management. This authorization remains in effect.

In exercising its discretion consistent with its portfolio management responsibilities, the investment manager will take into account various other factors, including, but not limited to, the level of the discount, the Fund's performance, portfolio holdings, dividend history, market conditions, cash on hand, the availability of other attractive investments and whether the sale of certain portfolio securities would be undesirable because of liquidity concerns or because the sale might subject the Fund to adverse tax consequences. Any repurchases would be made on a national securities exchange at the prevailing market price, subject to exchange requirements, Federal securities laws and rules that restrict repurchases, and the terms of any outstanding leverage or borrowing of the Fund. If and when the Fund's 10% threshold is reached, no further repurchases could be completed until authorized by the Board. Until the 10% threshold is reached, Fund management will have the flexibility to commence share repurchases if and when it is determined to be appropriate in light of prevailing circumstances.

In the Notes to Financial Statements section, please see note 2 (Shares of Beneficial Interest) for additional information regarding shares repurchased.

8 | Semiannual Report

Templeton Emerging Markets Income Fund

Financial Highlights

	Six Months Ended		Year Ended August 31,			
	February 28, 2014 (unaudited)	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 14.58	\$ 15.91	\$ 16.61	\$ 16.27	\$ 13.82	\$ 14.45
Income from investment operations:						
Net investment income ^a	0.52	1.07	1.08	1.17	1.12	1.03
Net realized and unrealized gains (losses)	0.08	(0.54)	(0.37)	0.41	2.45	(0.22)
Total from investment operations	0.60	0.53	0.71	1.58	3.57	0.81
Less distributions from:						
Net investment income and net foreign						
currency gains	(0.74)	(1.44)	(1.34)	(1.19)	(1.05)	(1.36)
Net realized gains	(0.20)	(0.42)	(0.07)	(0.05)	(0.07)	(0.08)
Total distributions	(0.94)	(1.86)	(1.41)	(1.24)	(1.12)	(1.44)
Net asset value, end of period	\$ 14.24	\$ 14.58	\$ 15.91	\$ 16.61	\$ 16.27	\$ 13.82
Market value, end of period ^b	\$ 13.91	\$ 13.85	\$ 17.01	\$ 17.22	\$ 16.18	\$ 13.11
Total return (based on market value per share) ^c						
	7.35 %	(8.75)%	8.17 %	14.60 %	33.26 %	6.57 %
Ratios to average net assets^d						
Expenses	1.09 %	1.09 % ^e	1.15 %	1.20 % ^e	1.19 % ^e	1.20 % ^e
Net investment income	7.19 %	6.79 %	6.90 %	7.08 %	7.36 %	8.59 %
Supplemental data						
Net assets, end of period (000's)	\$ 682,931	\$ 699,414	\$ 759,024	\$ 789,998	\$ 769,970	\$ 653,992
Portfolio turnover rate	10.28 %	14.53 %	16.56 %	24.59 %	13.26 %	34.03 %

^aBased on average daily shares outstanding.

^bBased on the last sale on the New York Stock Exchange.

^cTotal return is not annualized for periods less than one year.

^d