

Stone Harbor Emerging Markets Income Fund
Form N-CSRS/A
August 05, 2011
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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)

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c/o Stone Harbor Investment Partners LP

31 West 52nd Street, 16th Floor

New York, NY 10019

(Name and address of agent for service)

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

Date of fiscal year end: November 30

Date of reporting period: December 22, 2010 May 31, 2011

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Item 1. **Report to Stockholders.**

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Trustees & Officers

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Stone Harbor Emerging Markets Income Fund

Shareholder Letter

May 31, 2011 (Unaudited)

Dear Shareholder:

We appreciate your confidence in Stone Harbor Investment Partners, the investment manager of the Stone Harbor Emerging Markets Income Fund. As you know, the Fund's objective is to maximize total return, which consists of income on its investments and capital appreciation. The Fund invests primarily in debt securities issued by governments and corporations in emerging market countries. The investments are denominated in both U.S. dollars and in local currencies.

We believe that the continuing trends of credit improvement and strong economic growth make emerging market debt investments very attractive versus bonds from developed countries. We believe that these fundamentals, coupled with Stone Harbor's many years of experience in the asset class, put us in a good position to achieve the Fund's objectives. At Stone Harbor we endeavor to keep you well informed. Please feel free to call us at 877-206-0791 if you have any questions about your investment in our Fund.

Performance Review

Emerging Markets Debt Fund investors fared well in the Fund's initial reporting period. The total return on net asset value (NAV) of the Fund from inception of December 23, 2010 to May 31, 2011 was 7.32%. This performance compared quite favorably to most comparable indices for the period (See Figure 1). On a market value basis, the Fund's total return was 3.08% during this period.

Figure 1. Comparative Asset Class/Index Returns, 23 December 2010 to 31 May 2011

Energy Commodities	12.59%
Gold	11.12%
Broad Commodities	9.07%
EM Local Currency Debt	8.09%
S&P 500	7.92%
EDF (NAV)	7.32%
US High Yield Bonds	6.28%
Barclays Global Aggregate (Fixed Income)	6.26%
US TIPS	5.42%
US Investment Grade Debt	4.87%
US Treasuries 7-10 Year	4.78%
EM Equities	4.73%
EM Corporate Debt, High Yield	4.60%
EM External Sovereign Debt	4.02%
EM Corporate Debt	3.83%
EM Corporate Debt, Investment Grade	3.46%
Agricultural Commodities	1.95%
US Dollar	-7.31%

Source: Bloomberg, Stone Harborⁱ

For the reporting period, EDF's NAV outperformed its benchmark, the JP Morgan Emerging Market Bond Index - Global Diversified, by 3.30%. Most of this excess return resulted from security selection decisions in external sovereign debt and local currency bonds. Local currencies benefitted largely from a declining US dollar, but also from continuing strength in many key emerging markets (EM) economies. On balance, our country selection decisions detracted from performance, but our allocations to corporate debt in most countries enhanced total return relative to the index. We actively manage the allocations to external sovereign (US dollar-denominated), corporate, and local currency debt, based on the intensive credit research and relative value analysis of our portfolio management and research teams. On May 31, 2011, EDF's allocations were 50.1% local currency sovereign debt, 30.5% external sovereign debt, 19.3% corporate debt and 0.1% net cash.

Market Review

We are particularly pleased with the performance of the Fund given the market headwinds that global investors faced during the period. While not an exhaustive list, the potentially destabilizing events during the period included:

1. The governments of Egypt and Tunisia were toppled by popular insurrection
2. The war began in Libya
3. Oil prices (Brent crude) climbed to a peak of \$126.74, nearly 35% higher than when EDF was launched
4. Japan's tsunami and earthquake resulted in significant economic destruction, particularly in global supply chains.
5. The sovereign debt crisis in Europe's periphery intensified; Portugal, Greece and Ireland were downgraded.
6. The US Federal Reserve ended the second round of quantitative easing, dubbed QE2.
7. The US economy entered a lull in growth in the second quarter, raising worries of the potential for a double-dip recession

Despite rising geopolitical and macroeconomic risks in the developed world, the fundamental characteristics of most EMs—fast growth rates, relatively low debt levels and improved policy making in both fiscal and monetary matters—remained supportive of the EM debt asset classes. EM growth rates remained well above growth rates of developed countries. Commodity prices stabilized, but remained at relatively high levels, fueled largely by EM demand. Since many EM countries are rich in natural resources, the sustained high level of commodity prices has enriched EM exporters and provided a steady stream of new cash flow, all of which supported EM governments' and companies' abilities to repay their debts. EM central banks continued normalizing monetary policy during the reporting period, hiking short term policy rates or raising bank reserve requirement ratios to cool inflation pressures. We expect more EM central banks to allow currency appreciation in the months ahead to help in an effort to stave off the threat of inflation.

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Stone Harbor Emerging Markets Income Fund

Shareholder Letter

May 31, 2011 (Unaudited)

Our strategy focused on investing in assets with attractive total return potential from EM countries and companies of improving credit quality. At the end of the period our allocations reflected our strong bias in favor of local currency and corporate bonds from many fast growing EM countries. In addition, we held exposure to select sovereign external bonds where we saw strong valuations and potential for return from spread compression.

Our outlook for the remainder of the year remains constructive for EM debt. While signs of a global soft patch in economic activity have affected EM economies as industrial production figures have weakened recently, growth rates have remained solidly positive in most EMs; we believe EM growth rates will continue to outpace developed country growth rates this year. While policy rates in core developed countries may begin to normalize by year end, interest rates are most likely to remain very low, in our opinion. Inflation pressures, as we see it, have been eased in part by prudent monetary policies of many EM central banks, but also by the stabilization of commodity prices in recent months. Moreover, continued institutional investments in EM debt, which reflect a shift to strategic allocations to the asset class, provide further strong support.

Nevertheless, we recognize several specific market risks to our benign base case, including:

1. Europe fails to provide a comprehensive solution to the sovereign debt crises in Portugal, Italy, Ireland, Greece and Spain
2. The US economy slips back into recession
3. China's economy weakens, producing a hard landing of sub 7% annual growth rate
4. EM policy makers engage in trade wars in an effort to counteract the economic effects of a falling US dollar
5. EM central banks fall behind in their efforts to curb inflation
6. US interest rates rise sharply reflecting rising fiscal deficits and the end of quantitative easing.

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. With respect to leverage, Stone Harbor tactically employs leverage to enhance returns. During the performance period, leverage consisted primarily of borrowings using short term reverse repurchase agreements through which the Fund loans securities with the obligation to repurchase them at a later date at a fixed price. The implied borrowing costs of the repurchase agreements averaged approximately 0.56% per annum. The level of gross leverage was increased to a maximum of 24.4% of total assets in February, but was reduced by the end of the period to 17.96%. The Fund management team varied borrowing levels to reflect the team's outlook on the EM debt markets. The team increased borrowings when it felt opportunities had increased and reduced borrowings when, in the team's judgment, macroeconomic risks had risen. The Fund's lower level of gross leverage at the end of the period reflected the team's assessment of the rising risks of a sovereign default in Europe's southern periphery as well as a slow

down in US growth. Nevertheless, the Fund's allocations express a positive secular outlook for emerging markets.

As it pertains to the risk of a general rise in global interest rates, Stone Harbor attempts to mitigate the risk of loss of principal through its allocation process. We seek to upgrade credit quality and reduce duration exposure during periods of rising 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.

Notwithstanding these risks, we anticipate further strong gains from EM debt through the remainder of 2011 and continue to believe that all three sectors of the asset class - external sovereign, corporate and local currency debt - offer attractive risk-adjusted returns for investors.

Once again, we thank you for choosing Stone Harbor Investment Partners.

Sincerely,

Thomas W. Brock
Chairman of the Board of Trustees

List of indices

CEMBI Broad Diversified High Grade

CEMBI Broad Diversified High Yield

CEMBI Broad Diversified

GBI EM Global Diversified

EMBI Global Diversified

Citigroup High Yield Capped

JP Morgan U.S. High Grade

S&P GSCI Energy

S&P GSCI Agriculture

SPDR Gold Trust

Barclays U.S. TIPS

Barclays U.S. Treasury 7-10 Year

Barclays Global Aggregate

MSCI Emerging Markets Free

S&P 500 Index

U.S. Dollar Index

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Stone Harbor Emerging Markets Income Fund

Summary of Portfolio Holdings

May 31, 2011 (Unaudited)

Under SEC Rules, all funds are required to include in their annual and semi-annual shareholder reports a presentation of portfolio holdings in a table, chart or graph by reasonably identifiable categories. The following tables, which present holdings as a percent of total net assets (TNA), are provided in compliance with such requirements.

STONE HARBOR EMERGING MARKETS INCOME FUND

Country Breakdown	% of TNA
Argentina	16.29%
Brazil	15.46%
Mexico	14.86%
Venezuela	11.49%
Indonesia	10.64%
South Africa	9.90%
Ukraine	9.54%
Iraq	5.95%
Colombia	4.77%
Turkey	2.33%
Kazakhstan	2.11%
Malaysia	1.98%
Russia	1.65%
Poland	1.43%
United Arab Emirates	1.18%
Dominican Republic	1.08%
China	1.05%
Luxembourg	0.90%
Peru	0.80%
Croatia	0.69%
Philippines	0.48%
India	0.40%
Egypt	0.30%
Ghana	0.18%
Uruguay	0.13%
Total	115.59%
Money Market Mutual Funds	6.92%
Liabilities in Excess of Other Assets	-22.51%
Total Net Assets	100.00%

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Stone Harbor Emerging Markets Income Fund

Summary of Portfolio Holdings

May 31, 2011 (Unaudited)

Security Type Allocation***Sector Allocation***

Sovereign Local	50.1%
Sovereign Dollar	30.5%
Corporate	19.3%
Net Cash	0.1%

Regional Breakdown*

Latin America	54.8%
Europe	18.3%
Asia	12.2%
Africa	8.7%
Middle East	5.9%
Net Cash	0.1%

Currency Breakdown*

Argentine Peso	4.70%
Brazilian Real	10.80%
Colombian Peso	4.00%
Indonesian Rupiah	5.40%
Mexican Peso	9.60%
Malaysian Ringgit	1.60%
Philippine Peso	0.40%
Polish Zloty	1.20%
Russian Ruble	2.70%
Turkish Lira	1.50%
South African Rand	8.20%
United States Dollar	49.90%
Total	100.00%

* Based on managed assets including derivative exposure. For purposes of this example, managed assets are defined as 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
May 31, 2011 (Unaudited)

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

The JP Morgan Emerging Market Bond Global Diversified Index is a uniquely-weighted version of the EMBI Global Index, which tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities such as Brady bonds, loans and Eurobonds. Currently, the EMBI Global Index covers 196 instruments across 28 countries. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global Index.

Average Annual Total Returns as of May 31, 2011

	3 Months	Since Inception	Inception Date
Stone Harbor Emerging Markets Income Fund - NAV	8.50%	7.32%	12/22/10
Stone Harbor Emerging Markets Income Fund Market Price	4.12%	3.08%	
JP Morgan EMBI Global Diversified Index	4.14%	4.11%	

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 Income Fund

Statement of Investments

May 31, 2011 (Unaudited)

	Currency	Rate	Maturity Date	Principal Amount *	Market Value (Expressed in U.S. \$)
SOVEREIGN DEBT OBLIGATIONS - 50.47%					
Argentina - 13.84%					
<i>Republic of Argentina:</i>					
	ARS	2.000%	09/30/2014	\$ 15,745,013	\$ 3,525,869 ⁽¹⁾⁽²⁾
		7.000%	04/17/2017	18,398,523	16,642,486 ⁽³⁾
		8.280%	12/31/2033	10,859,924	9,339,535 ⁽³⁾
	ARS	5.820%	12/31/2033	54,820,730	17,933,792 ⁽¹⁾⁽²⁾
		0.000%	12/15/2035	1,554,684	256,911 ⁽¹⁾
	EUR	0.000%	12/15/2035	25,889,000	5,262,522 ⁽¹⁾
					52,961,115
Colombia - 0.28%					
<i>Republic of Colombia</i>					
		7.375%	09/18/2037	857,000	1,081,963
Croatia - 0.69%					
<i>Croatian Government</i>					
		6.375%	03/24/2021	2,560,000	2,644,480 ⁽⁴⁾
Ghana - 0.18%					
<i>Republic of Ghana</i>					
		8.500%	10/04/2017	596,000	669,755 ⁽⁵⁾
Iraq - 1.33%					
<i>Republic of Iraq</i>					
		5.800%	01/15/2028	5,500,000	5,080,625 ⁽⁵⁾
Malaysia - 1.98%					
<i>Malaysian Government:</i>					
	MYR	5.094%	04/30/2014	16,380,000	5,705,164
	MYR	4.012%	09/15/2017	5,500,000	1,851,146
					7,556,310
Mexico - 11.30%					
<i>Mexican Bonos:</i>					
	MXN	8.000%	06/11/2020	283,700,000	26,562,253
	MXN	8.500%	05/31/2029	175,700,000	16,666,585
					43,228,838
Philippines - 0.48%					
<i>Republic of Philippines</i>					
	PHP	4.950%	01/15/2021	79,000,000	1,844,429
Poland - 1.43%					
<i>Republic of Poland</i>					
	PLN	5.500%	04/25/2015	15,000,000	5,484,491

Russia - 1.65%

<i>Russian Federation</i>	7.500%	03/31/2030	5,362,965	6,322,936 ⁽³⁾⁽⁵⁾⁽⁶⁾
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See Notes to Financial Statements.

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Stone Harbor Emerging Markets Income Fund

Statement of Investments

May 31, 2011 (Unaudited)

					Market Value
			Maturity	Principal	(Expressed
	Currency	Rate	Date	Amount *	in U.S. \$)
South Africa - 9.90%					
<i>Republic of South Africa:</i>					
	ZAR	8.250%	09/15/2017	\$ 70,000,000	\$ 10,372,223
	ZAR	8.000%	12/21/2018	12,940,000	1,879,021
		6.875%	05/27/2019	570,000	678,870
	ZAR	7.250%	01/15/2020	6,840,000	941,909
	ZAR	6.750%	03/31/2021	92,540,000	12,168,358
	ZAR	10.500%	12/21/2026	69,020,000	11,861,111
					37,901,492
Turkey - 1.79%					
<i>Republic of Turkey</i>					
	TRY	10.000%	02/15/2012	10,305,450	6,860,829
Ukraine - 3.07%					
<i>Ukraine Government:</i>					
		7.650%	06/11/2013	7,183,000	7,631,937 ⁽³⁾⁽⁵⁾
		6.875%	09/23/2015	2,000,000	2,075,000 ⁽⁴⁾
		7.750%	09/23/2020	2,000,000	2,053,000 ⁽³⁾⁽⁵⁾
					11,759,937
Uruguay - 0.13%					
<i>Republic of Uruguay</i>					
		9.250%	05/17/2017	385,000	503,388
Venezuela - 2.42%					
<i>Republic of Venezuela</i>					
		12.750%	08/23/2022	10,773,600	9,265,296 ⁽³⁾⁽⁵⁾
TOTAL SOVEREIGN DEBT OBLIGATIONS					193,165,884
(Amortized Cost \$189,985,999)					
BANK LOANS - 3.89%⁽⁷⁾					
Brazil - 0.52%					
<i>Virgolino de Oliveira - GVO Loan</i>					
		5.273%	03/11/2015	2,000,000	2,000,000
Indonesia - 3.37%					
<i>PT Bumi Tranche A</i>					
		0.000%	03/02/2012	7,157,442	7,157,442 ⁽²⁾
<i>PT Bumi Tranche B</i>					
		0.000%	03/02/2012	5,712,558	5,712,558 ⁽²⁾
					12,870,000

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TOTAL BANK LOANS	14,870,000
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(Amortized Cost \$14,870,000)

CONVERTIBLE CORPORATE BONDS - 0.13%

Indonesia - 0.13%

<i>BLT International Corp.</i>	12.000%	02/10/2015	500,000	509,275
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TOTAL CONVERTIBLE CORPORATE BONDS	509,275
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(Amortized Cost \$500,000)

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Stone Harbor Emerging Markets Income Fund

Statement of Investments

May 31, 2011 (Unaudited)

	Currency	Rate	Maturity Date	Principal Amount *	Market Value (Expressed in U.S. \$)
CORPORATE BONDS - 30.02%					
Argentina - 0.62%					
Capex SA		10.000%	03/10/2018	\$ 1,279,000	\$ 1,272,349 ⁽⁴⁾
Empresa Distribuidora Y Comercializadora Norte		9.750%	10/25/2022	511,000	523,775 ⁽⁴⁾
Tarjeta Naranja SA		9.000%	01/28/2017	553,000	573,588 ⁽⁴⁾
					2,369,712
Brazil - 2.31%					
Banco Cruzeiro do Sul SA		8.875%	09/22/2020	2,372,000	2,342,587 ⁽⁵⁾
BR Malls International Finance Ltd.		8.500%	01/21/2049	512,000	543,846 ⁽⁴⁾
General Shopping Finance Ltd.		10.000%	11/09/2015	1,341,000	1,414,581 ⁽⁴⁾
Hypermarcas SA		6.500%	04/20/2021	1,387,000	1,390,468 ⁽⁴⁾
Marfrig Holding Europe BV		8.375%	05/09/2018	840,000	832,860 ⁽⁴⁾
Mirabela Nickel Ltd.		8.750%	04/15/2018	297,000	300,712 ⁽⁴⁾
OGX Petroleo e Gas Participacoes SA		8.500%	06/01/2018	1,532,000	1,575,662 ⁽⁴⁾
Virgolino de Oliveira Finance Ltd.		10.500%	01/28/2018	413,000	441,167 ⁽⁵⁾
					8,841,883
China - 1.05%					
Country Garden Holdings Co.		11.125%	02/23/2018	750,000	782,850 ⁽⁴⁾
Hidili Industry International Development Ltd.		8.625%	11/04/2015	404,000	400,465 ⁽⁵⁾
Kaisa Group Holdings Ltd.		13.500%	04/28/2015	1,300,000	1,317,875 ⁽⁵⁾
MIE Holdings Corp.		9.750%	05/12/2016	1,532,000	1,522,502 ⁽⁴⁾
					4,023,692
Colombia - 0.30%					
Emgesa SA ESP	COP	8.750%	01/25/2021	911,000,000	539,328 ⁽⁴⁾
Empresas Publicas de Medellin ESP	COP	8.375%	02/01/2021	1,030,000,000	595,619 ⁽⁴⁾
					1,134,947
Dominican Republic - 1.08%					
Cap Cana SA:					
		10.000%	04/30/2016	3,182,011	1,591,005 ⁽²⁾⁽⁵⁾
		10.000%	04/30/2016	3,621,970	2,535,379 ⁽²⁾⁽⁵⁾
					4,126,384
Egypt - 0.30%					
Orascom Telecom Finance SCA		7.875%	02/08/2014	1,118,000	1,161,322 ⁽⁵⁾
India - 0.40%					
Vedanta Resources PLC		8.250%	06/07/2021	1,517,000	1,532,170 ⁽⁴⁾

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Indonesia - 1.78%

<i>Bakrie Telecom Pte Ltd.</i>		11.500%	05/07/2015	735,000	769,912 ⁽⁵⁾
<i>BLT Finance BV</i>		7.500%	05/15/2014	1,377,000	1,187,241 ⁽⁵⁾
<i>BSP Finance BV</i>		10.750%	11/01/2011	1,000,000	993,700
<i>European Bank for Reconstruction & Development</i>	IDR	7.200%	06/08/2016	32,570,000,000	3,844,447
					6,795,300

Kazakhstan - 2.11%

<i>BTA Bank JSC</i>		10.750%	07/01/2018	8,975,001	8,077,501 ⁽⁵⁾⁽⁶⁾
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Stone Harbor Emerging Markets Income Fund

Statement of Investments

May 31, 2011 (Unaudited)

	Currency	Rate	Maturity Date	Principal Amount *	Market Value (Expressed in U.S. \$)
Luxembourg - 0.90%					
<i>Russian Agricultural Bank OJSC Via RSHB Capital SA</i>		7.750%	05/29/2018	\$ 3,000,000	\$ 3,435,000 ⁽⁴⁾
Mexico - 3.56%					
<i>Bank of New York Mellon SA Institucion de Banca Multiple</i>		9.625%	05/02/2021	4,072,000	4,224,700 ⁽²⁾⁽⁴⁾
<i>Cemex SAB de CV:</i>		5.301%	09/30/2015	7,000,000	6,921,250 ⁽¹⁾⁽⁴⁾
		9.000%	01/11/2018	2,383,000	2,496,193 ⁽⁴⁾
					13,642,143
Peru - 0.80%					
<i>Inkia Energy Ltd.</i>		8.375%	04/04/2021	3,000,000	3,079,500 ⁽⁴⁾
Turkey - 0.54%					
<i>Yuksel Insaat AS</i>		9.500%	11/10/2015	2,152,000	2,076,680 ⁽⁵⁾
Ukraine - 4.02%					
<i>Avangardco Investments Public Ltd.</i>		10.000%	10/29/2015	2,000,000	1,990,000
<i>Metinvest BV</i>		8.750%	02/14/2018	2,677,000	2,861,044 ⁽⁴⁾
<i>Mriya Agro Holding PLC</i>		10.950%	03/30/2016	5,000,000	5,031,250 ⁽⁴⁾
<i>NAK Naftogaz Ukraine</i>		9.500%	09/30/2014	5,000,000	5,505,000 ⁽³⁾
					15,387,294
United Arab Emirates - 1.18%					
<i>Dubai Holding Commercial Operations MTN Ltd.:</i>					
	EUR	4.750%	01/30/2014	150,000	195,897
	GBP	6.000%	02/01/2017	1,550,000	2,154,549
<i>Dubai Sukuk Centre Ltd.</i>		0.685%	06/13/2012	2,313,000	2,164,968 ⁽¹⁾
					4,515,414
Venezuela - 9.07%					
<i>Petroleos de Venezuela SA:</i>					
		4.900%	10/28/2014	44,294,000	32,722,192 ⁽³⁾
		5.250%	04/12/2017	3,240,000	1,973,970
					34,696,162
					114,895,104

TOTAL CORPORATE BONDS

(Amortized Cost \$111,299,575)

CREDIT LINKED NOTES - 28.63%

Argentina - 1.83%

<i>Cablevision SA</i>	9.375%	02/12/2018	2,394,000	2,399,985 ⁽⁸⁾
<i>Endesa Costanera SA</i>	11.304%	03/30/2012	2,115,430	2,115,430 ⁽¹⁾⁽⁹⁾
<i>Hidroelec el Chocon SA</i>	8.061%	03/01/2015	2,500,000	2,500,000 ⁽¹⁰⁾

7,015,415

See Notes to Financial Statements.

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Stone Harbor Emerging Markets Income Fund

Statement of Investments

May 31, 2011 (Unaudited)

					Market Value
			Maturity	Principal	(Expressed
	Currency	Rate	Date	Amount *	in U.S. \$)
Brazil - 12.63%					
<i>Nota Do Tesouro Nacional:</i>					
	BRL	10.000%	01/01/2021	\$ 4,000,000	\$ 2,208,715 ⁽¹¹⁾
	BRL	10.000%	01/01/2021	6,500,000	3,589,162 ⁽¹¹⁾
	BRL	10.000%	01/01/2021	18,700,000	10,311,519 ⁽¹²⁾
	BRL	10.000%	01/01/2021	18,700,000	10,311,520 ⁽¹²⁾
	BRL	10.000%	01/01/2021	39,600,000	21,898,709 ⁽¹³⁾
					48,319,625
Colombia - 4.19%					
<i>Colombia CGM:</i>					
	COP	11.000%	07/24/2020	23,000,000,000	15,168,016 ⁽¹¹⁾
	COP	10.000%	07/24/2024	1,375,000,000	875,076 ⁽¹¹⁾
					16,043,092
Indonesia - 5.36%					
<i>Republic of Indonesia:</i>					
	IDR	12.800%	06/15/2021	56,000,000,000	9,024,427 ⁽¹⁴⁾
	IDR	12.800%	06/15/2021	60,000,000,000	9,560,073 ⁽⁹⁾
	IDR	8.250%	07/15/2021	3,987,000,000	496,886 ⁽¹²⁾
	IDR	8.250%	07/15/2021	4,000,000,000	498,506 ⁽⁸⁾
	IDR	8.250%	07/15/2021	7,600,000,000	947,385 ⁽¹⁴⁾
					20,527,277
Iraq - 4.62%					
<i>Republic of Iraq</i>					
	JPY	2.286%	01/01/2028	2,000,000,000	17,666,544 ⁽¹⁾⁽¹⁵⁾
TOTAL CREDIT LINKED NOTES					109,571,953
(Cost \$106,335,140)					
PARTICIPATION NOTES - 2.45%					
Ukraine - 2.45%					
<i>Ukreximbank Biz Finance PLC</i>					
		8.375%	04/27/2015	8,909,000	9,398,995 ⁽³⁾⁽⁵⁾
TOTAL PARTICIPATION NOTES					9,398,995
(Amortized Cost \$9,257,024)					
SHORT TERM INVESTMENTS - 6.92%					

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Money Market Mutual Funds - 6.92%

Dreyfus Treasury Prime Institutional

(0.000% 7 - Day Yield)

26,491,245

26,491,245

See Notes to Financial Statements.

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Stone Harbor Emerging Markets Income Fund

Statement of Investments

May 31, 2011 (Unaudited)

	Market Value (Expressed in U.S. \$)
TOTAL SHORT TERM INVESTMENTS	\$ 26,491,245
(Cost \$26,491,245)	
Total Investments - 122.51%	468,902,456
(Cost \$458,738,983)	
Liabilities in Excess of Other Assets - (22.51)%	(86,156,896)
Net Assets - 100.00%	\$ 382,745,560

* The principal/contract amount of each security is stated in the currency in which the bond is denominated (U.S. Dollar unless otherwise notated). See below.

ARS	Argentine Peso	MXN	Mexican Peso
BRL	Brazilian Real	MYR	Malaysian Ringgit
COP	Colombian Peso	PHP	Philippine Peso
EUR	Euro Currency	PLN	Polish Zloty
GBP	Great Britain Pound	TRY	Turkish Lira
IDR	Indonesian Rupiah	ZAR	South African Rand
JPY	Japanese Yen		

- (1) Floating or variable rate security. Interest rate disclosed is that which is in effect at May 31, 2011.
- (2) This security has been valued at its fair value determined in good faith pursuant to procedures approved by the Board of Trustees. Total market value of fair valued securities amounts to \$42,680,745, which represents approximately 11.15% of net assets as of May 31, 2011.
- (3) On May 31, 2011, securities valued at \$119,645,250 were pledged as collateral for reverse repurchase agreements. The average amount of borrowings while outstanding during the period ended May 31, 2011 was \$86,846,746 at a weighted average interest rate of 0.56%.
- (4) Security exempt from registration under Rule 144A of the Securities Act of 1933. Under procedures approved by the Board of Trustees, such securities have been determined to be liquid by the Investment Advisor and may normally be sold to qualified institutional buyers in transactions exempt from registration. Total market value of Rule 144A securities amounts to \$46,168,727, which represents approximately 12.06% of net assets as of May 31, 2011.
- (5) Securities were 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. These securities have been deemed liquid under procedures approved by the Fund's Board of Trustees. As of May 31, 2011, the aggregate market value of those securities was \$62,323,678, representing 16.28% of net assets.
- (6) Step bond. Coupon increases periodically based upon a predetermined schedule. Interest rate disclosed is that which is in effect at May 31, 2011.
- (7) 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 May 31, 2011. Bank Loans, while exempt from registration,

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under the Securities Act of 1933 (the "1933 Act"), 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.

(8) The underlying security is issued by Deutsche Bank AG London.

(9) The underlying security is issued by Credit Suisse First Boston.

(10) The underlying security is issued by Bley Investment.

(11) The underlying security is issued by Citigroup Global Markets.

(12) The underlying security is issued by JP Morgan Chase.

(13) The underlying security is issued by Barclays Bank PLC.

(14) The underlying security is issued by HSBC Bank.

(15) The underlying security is issued by Merrill Lynch.

See Notes to Financial Statements.

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Stone Harbor Emerging Markets Income Fund

Summary of Investments

May 31, 2011 (Unaudited)

Common Abbreviations:

AS - Anonim Sirket is the Turkish term for Incorporation.

BV - Besloten Vennootschap a Dutch private limited liability

company.

ESP - Empresa de Servicios Publicos is the Colombian term for Public Service Company.

JSC - Joint Stock Company.

Ltd. - Limited.

MTN - Medium Term Note.

OJSC - Open Joint Stock Company.

PLC - Public Limited Co.

Pte - private.

SA - Generally designates corporations in various countries, mostly those employing the civil law.

SAB de CV - A variable capital company.

SCA - Socete en Commandite par actions is the French equivalent of a limited partnership.

OUTSTANDING FORWARD FOREIGN CURRENCY CONTRACTS

Contract	Contracted	Purchase/Sale	Settlement	Current	Unrealized
Description	Amount	Contract	Date	Value	Appreciation/ (Depreciation)
BRL	18,063,870	Purchase	06/02/2011	\$ 11,444,056	\$339,360
BRL	18,063,870	Sale	06/02/2011	11,444,055	14,176
RUB	247,689,000	Purchase	07/06/2011	8,820,896	120,896
RUB	106,521,928	Purchase	08/19/2011	3,775,314	15,314
					\$489,746
EUR	3,766,000	Sale	07/14/2011	\$5,413,699	\$(88,123)
GBP	1,338,000	Sale	07/14/2011	2,199,826	(33,537)
JPY	1,453,610,000	Sale	07/14/2011	17,836,510	(56,979)

\$(178,639)

See Notes to Financial Statements.

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Stone Harbor Emerging Markets Income Fund

Statement of Assets & Liabilities

May 31, 2011 (Unaudited)

ASSETS:	
Investments, at value ⁽¹⁾	\$ 468,902,456
Cash	295,348
Foreign currency, at value (Cost \$11,099)	11,021
Unrealized appreciation on forward foreign currency contracts	489,746
Receivable from broker	360,000
Receivable for investments sold	3,757,690
Interest receivable	11,051,994
Prepaid and other assets	18,531
Total Assets	484,886,786
LIABILITIES:	
Payable for Reverse Repurchase Agreements	83,730,614
Interest due on Reverse Repurchase Agreements	55,095
Payable for investments purchased	17,562,556
Unrealized depreciation on forward foreign currency contracts	178,639
Payable to advisor	383,349
Payable to administrator	77,028
Payable for trustee fees	14,387
Other payables	139,558
Total Liabilities	102,141,226
Net Assets	\$ 382,745,560

NET ASSETS CONSIST OF:

Paid-in capital	\$ 367,543,858
Undistributed net investment income	3,022,502
Accumulated net realized gain on investments, securities sold short and translation of assets and liabilities denominated in foreign currency	1,629,283
Net unrealized appreciation on investments and translation of assets and liabilities denominated in foreign currency	10,549,917
Net Assets	\$ 382,745,560

PRICING OF SHARES:

Net Assets	\$ 382,745,560
Shares of beneficial interest outstanding (unlimited number of shares, par value of \$0.001 per share authorized)	15,425,420
Net assets value, offering and redemption price per share	\$ 24.81

⁽¹⁾Cost of Investments \$ 458,738,983

See Notes to Financial Statements.

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

For the Period December 22, 2010 (Inception) to May 31, 2011 (Unaudited)

INVESTMENT INCOME:	
Interest	\$ 16,775,694
Total Investment Income	16,775,694
EXPENSES:	
Investment advisory fee	1,951,587
Administration fee	312,453
Interest on Reverse Repurchase Agreements	215,203
Custodian fees	66,665
Audit fees	37,318
Printing fees	23,323
Legal fees	27,989
Trustee fees	29,387
Transfer agent fees	11,662
Insurance fees	14,464
Other	11,620
Total Expenses	2,701,671
Net Investment Income	14,074,023
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS:	
Net realized gain/(loss) on:	
Investments	(3,390,206)
Securities sold short	17,416
Foreign currency transactions	5,002,073
Net realized gain	1,629,283
Change in unrealized appreciation on:	
Investments	10,549,917
Translation of assets and liabilities denominated in foreign currencies	386,444
Net change	10,549,917
Net Realized and Unrealized Gain on Investments	12,179,200
Net Increase in Net Assets Resulting from Operations	\$ 26,253,223
<i>See Notes to Financial Statements.</i>	

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Stone Harbor Emerging Markets Income Fund

Statement of Changes in Net Assets

	For the Period
	December 22, 2010
	(Inception) to
	May 31, 2011
	(Unaudited)
OPERATIONS:	
Net investment income	\$ 14,074,023
Net realized gain/(loss) on investments:	
Investments	(3,390,206)
Securities sold short	17,416
Foreign currency transactions	5,002,073
Net change in unrealized appreciation on investments and foreign currency translations	10,549,917
Net increase in net assets resulting from operations	26,253,223
DISTRIBUTIONS TO SHAREHOLDERS:	
From net investment income	(11,051,521)
Net decrease in net assets from distributions to shareholders	(11,051,521)
CAPITAL SHARE TRANSACTIONS:	
Proceeds from sales of shares, net of offering costs of \$765,000	364,522,500
Net asset value of common shares issued to stockholders from reinvestment of dividends	2,921,358
Net increase in net assets from capital share transactions	367,443,858
Net Increase in Net Assets	382,645,560
NET ASSETS:	
Beginning of period	100,000
End of period (including undistributed net investment income of \$3,022,502)	\$ 382,745,560
OTHER INFORMATION:	
Share Transactions:	
Beginning shares	4,188
Shares issued in connection with initial public offering	15,300,000
Shares issued as reinvestment of dividends	121,232
Shares outstanding - end of period	15,425,420

See Notes to Financial Statements.

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

For the Period December 22, 2010 (Inception) to May 31, 2011 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net increase in net assets from operations	\$ 26,253,223
Adjustments to reconcile net increase/(decrease) in net assets resulting from operations to net cash used in operating activities:	
Purchases of investment securities	(662,094,261)
Proceeds from disposition of investment securities	234,451,575
Proceeds from securities sold short transactions	(5,500,000)
Cover securities sold short transactions	5,512,500
Net purchases of short-term investment securities	(26,490,620)
Net realized gain on investment securities	(1,629,283)
Net change in unrealized appreciation on investment securities	(10,549,917)
Payment for currency transactions	(739,895)
Premium amortization	327,892
Discount accretion	(2,247,584)
Inflation Income	(253,970)
Increase in receivable from broker	(360,000)
Increase in receivables for investments sold	(3,757,690)
Increase in interest receivable	(11,051,994)
Increase in prepaid and other assets	(18,531)
Increase in payable for investments purchased	