

Stone Harbor Emerging Markets Total Income Fund
Form N-CSRS
February 08, 2016
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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: 811-22716

Stone Harbor Emerging Markets Total 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.

Ropes & Gray LLP

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: May 31

Date of reporting period: June 1, 2015 November 30, 2015

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Item 1. **Report to Stockholders.**

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Distribution Policy

November 30, 2015

Stone Harbor Emerging Markets Total 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 began distributing \$0.1511 per share on a monthly basis in December 2012.

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

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

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Stone Harbor Emerging Markets Total Income Fund

Shareholder Letter
November 30,
2015 (Unaudited)

Dear Investor,

The Stone Harbor Emerging Markets Total Income Fund (EDI 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. Additionally, the Fund may invest up to 20% of its assets in emerging equity markets.

Our investment thesis is straightforward - despite periods of high market volatility, we believe EM debt markets continue to offer attractive investment opportunities for total return investors. That investment thesis has been tested during the six month period ended November 30, 2015 that is covered in this report. Macroeconomic volatility combined with some local developments in key emerging countries has created an extremely challenging environment, especially for local currency denominated EM sovereign debt. Nonetheless, we believe most EM countries maintain prudent debt levels and substantially lower fiscal deficits relative to the developed world. Furthermore, in this era of near-zero interest rates and quantitative easing in the developed world, the majority of EM countries are pursuing orthodox monetary policies, in our view. In addition, we believe EM debt still offers higher yields than advanced economy debt, even though EMs have better fundamentals in most cases, based on our analysis. This combination of high yields and attractive fundamentals supports our efforts to seek to maximize total return.

We believe that a key advantage we have in managing EDI is the latitude to adjust the risk in the portfolio based on fundamental economic and credit views, as well as our assessment of the macroeconomic environment. Our investment process focuses on allocating to three distinct sectors of EM debt - hard currency sovereigns, local currency sovereigns and corporates - each of which tend to behave differently in various macroeconomic environments. We also can invest a portion of EDI in the EM equity markets. We believe these allocation decisions provide important diversification benefits.

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

Performance Review

The total return on net asset value (NAV) of EDI for the six months ending November 30, 2015 was -6.84%, (net of expenses). For the same period, the Fund maintained an average discount to its NAV of 15.20%⁽¹⁾. Market tracking indices for the three sectors of EM debt⁽²⁾ - external sovereign debt, local currency debt and corporate debt - delivered total returns of -0.64%, -9.63% and -1.99%, respectively, during the reporting period. The relatively poor performance of local currency debt was driven by negative returns from foreign exchange. As discussed above, asset allocation is an important factor in our management of the Fund. Our allocation to local currency sovereign debt ranged from approximately 20% to 23% of the total portfolio during the six month period. The allocation was substantially below our long term allocation to local currency debt.

In the Fund's exposure to sovereign debt, our holdings in the short duration U.S. dollar-denominated debt of Venezuela had a large positive impact on returns for the six month period. We invested in Venezuela based on our assessment of the country's ability and willingness to repay debt from U.S. dollar cash flows generated from oil exports. Venezuela distributed coupon, amortization and maturity payments in excess of \$5 billion during the period, further affirming its commitment to debt service. In addition to our positioning in Venezuela, our overweight position in Argentina was a strong positive contributor during the period. Our positions in local currency sovereign debt detracted most from absolute returns during the period.

Throughout the reporting period, leverage consisted primarily of short-term reverse repurchase agreements through which the Fund borrowed funds by selling securities under the obligation to repurchase them at a later date at a fixed price. The implied borrowing costs of the repurchase agreements averaged approximately 0.66% per annum. The level of gross leverage reached a maximum of 33.3% of total assets on August 10, 2015 and a minimum of 28.3% on November 3, 2015. By the end of the reporting period, leverage was approximately 30.9%. The Fund's management team varied borrowing levels to reflect the team's outlook on EM risk, increasing borrowings when it felt opportunities had improved and reducing borrowings when, in the team's judgment, macroeconomic risks had risen. The Fund uses various derivative instruments to implement its strategies. These derivatives are utilized to manage the Fund's credit risk, interest rate risk and foreign exchange risk. These derivative positions may increase or decrease the Fund's exposure to these risks. At the end of the reporting period the Fund had net exposure to these derivatives of slightly less than \$1.2 million. Over the course of the reporting period these derivative positions generated net realized gains of approximately \$2.1 million and \$493,000 in unrealized depreciation for a net increase in operations of \$1.6 million. We plan to continue to utilize derivative instruments to implement our strategies related to credit risk, interest rate risk and foreign exchange risk.

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Stone Harbor Emerging Markets Total Income Fund

Shareholder Letter
November 30,
2015 (Unaudited)

Market Review and Outlook

In our view, the total returns for EM indices for the reporting period reflected a combination of events in developed markets and emerging markets overlaid by valuations in emerging markets.

Macroeconomic developments in advanced economies are important inputs into our assessment of the outlook for EM debt returns. The impact of developments outside the emerging markets on emerging market valuations has been a critical variable in the performance of emerging market assets since the end of the 2008 financial crisis. These factors, including weaker-than-expected economic growth, a strong US dollar, and falling oil prices weighed on the Fund's performance during this six month period. The Fund's investments in local currency denominated sovereign debt were the segment most negatively impacted by these factors. In our view, foreign exchange rates of emerging market currencies are extremely sensitive to changes in GDP growth expectations. Those growth expectations experienced significant volatility in recent months.

Despite these influences from advanced economies, our fundamental views on emerging markets have not changed. We continue to believe that many EM country growth rates should improve in the next 12-18 months. In our view, expectations for improved U.S. growth, together with recent depreciation of emerging market currencies and prior monetary easing by EM central banks, will support EM growth in the months ahead. But we believe this process will take time. Government debt levels and deficits in most EM countries remain at healthy levels, particularly compared to the U.S., Japan and many developed European countries. We believe investors will again focus on the relative strengths of EM fundamentals and the compelling valuations that have been created over the past year.

In the past, we have detailed some of the key risks to our constructive outlook for emerging markets debt. Today, those risks seem to emanate from both developed and emerging markets countries. The likelihood of increases in U.S. interest rates, the ongoing political and religious strife in the Middle East, weak growth in Europe and the potential for China's growth rate to fall short of expectations are all potential risks. However, our base case return scenarios for EM debt over the coming year remain positive. Our view derives from a disciplined investment process in which we review the ability and willingness of borrowers to repay their debts. We also assess whether current prices of emerging market bonds, currencies, local interest rates and equities reflect adequate compensation for risk within the current macroeconomic environment. Based on this process, we continue to believe that EM debt returns will be among the highest returns in the fixed income markets.

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

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

forward to reporting on EDI in six months.

Sincerely,

Thomas K. Flanagan
Chairman of the Board of Trustees

- (1) *Performance on a market value basis, or at market price, will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods, returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund dividends.*
- (2) *Market Tracking Indices include External sovereign debt: J.P. Morgan EMBI Global Diversified; Local currency debt: J.P. Morgan GBI-EM Global Diversified; and Corporate debt: J.P. Morgan CEMBI Broad Diversified.*

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Stone Harbor Emerging Markets Total Income Fund	Summary of Portfolio Holdings November 30, 2015 (Unaudited)
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Fund Details

Market Price	\$12.26
Net Asset Value (NAV)	\$14.49
Premium/(Discount)	(15.39%)
Current Distribution Rate ⁽¹⁾	14.79%
Net Assets (in millions)	\$139

Country Allocation(as a % of total net assets)⁽³⁾

Country Breakdown	%
South Africa	18.42%
Brazil	18.10%
Venezuela	14.90%
Mexico	14.04%
Russia	11.43%
Turkey	10.90%
Argentina	5.68%
Colombia	5.02%
Ivory Coast	4.88%
Ecuador	4.69%
Kazakhstan	4.22%
El Salvador	3.86%
Iraq	3.84%
Ghana	2.49%
Angola	2.11%
Nigeria	1.59%
Jamaica	1.41%
Chile	1.36%
Zambia	0.93%
Panama	0.65%
Israel	0.61%
Guatemala	0.60%
Peru	0.60%
Kenya	0.58%
India	0.52%

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Sri Lanka	0.36%
Costa Rica	0.35%
Ethiopia	0.30%
Gabon	0.24%
Vanguard FTSE Emerging Markets ETF	2.44%
Total	137.12%
Short Term Security	0.84%
Other Liabilities in Excess of Assets	-37.96%
Total Net Assets	100.00%

Security Type Allocation⁽²⁾

Sector Allocation⁽²⁾

Sovereign Local	39.8%
Sovereign External	35.5%
Corporate	16.3%
Equity	5.7%
Cash & Equivalents / U.S. Treasuries	2.7%

Regional Breakdown⁽²⁾

Latin America	50.6%
Africa	22.5%
Europe	18.7%
Middle East	3.2%
Multi	1.7%
Asia	0.6%

Cash & Equivalents / U.S. Treasuries	2.7%
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**Sovereign Local
Currency Breakdown⁽²⁾**

South African Rand	13.1%
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Brazilian Real	8.6%
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Mexican Peso	7.0%
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Turkish New Lira	4.5%
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Russian Ruble	3.4%
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Colombian Peso	3.2%
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Indonesian Rupiah	0.0%
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Total	39.8%
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⁽¹⁾ *Current Distribution Rate is based on the Fund's current annualized monthly distribution divided by the Fund's current market price. The Fund's monthly distributions to its shareholders may be comprised of ordinary income, net realized capital gains and return of capital in order to maintain a level distribution.*

⁽²⁾ *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 and the notional values of credit default swaps and interest rate swaps as described on pages 11 and 12.*

⁽³⁾ *Country refers to country of primary risk exposure, as determined by Stone Harbor. In certain instances, a security's country of incorporation may be different from its country of risk.*

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	Growth of
Stone Harbor Emerging Markets Total Income Fund	\$10,000 Investment November 30, 2015 (Unaudited)

Comparison of Change in Value of \$10,000 Investment in Stone Harbor Emerging Markets Total Income Fund and the J.P. Morgan Emerging Markets Bond Indices: EMBI Global Diversified, CEMBI Broad Diversified, and GBI-EM Global Diversified (please refer to page 36 for detailed benchmark descriptions).

Total Returns as of November 30, 2015 (Inception Date, October 25, 2012)

	6 Months	1 Year	3 Year	Since Inception (Annualized)
Stone Harbor Emerging Markets Total Income Fund				
NAV	-6.84%	-12.76%	-6.39%	-5.83%
Stone Harbor Emerging Markets Total Income Fund Market Price	-11.42%	-20.57%	-12.47%	-12.10%
J.P. Morgan CEMBI Broad Diversified	-1.99%	0.58%	2.58%	2.71%
J.P. Morgan EMBI Global Diversified	-0.64%	0.24%	1.70%	1.88%
J.P. Morgan GBI-EM Global Diversified	-9.63%	-18.14%	-8.62%	-7.97%

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 Total Income Fund

Statement of Investments
November 30, 2015 (Unaudited)

	Currency	Rate	Maturity Date	Principal Amount*	Market Value Expressed (in U.S. \$)
SOVEREIGN DEBT OBLIGATIONS - 81.65%					
Angola - 0.95%					
<i>Republic of Angola:</i>					
	USD	7.000%	08/16/2019	1,188,750	\$ 1,181,320 ⁽¹⁾⁽²⁾
	USD	9.500%	11/12/2025	145,000	145,725 ⁽³⁾
					1,327,045
Argentina - 3.03%					
<i>Republic of Argentina:</i>					
	USD	7.000%	04/17/2017	1,781,476	1,747,727 ⁽¹⁾
	USD	6.000%	03/31/2023	1,700,000	2,108,000 ⁽⁴⁾
	EUR	0%	12/15/2035	446,000	48,182
	USD	0%	12/15/2035	1,261,238	130,223
	EUR	2.260%	12/31/2038	313,339	184,565 ⁽⁴⁾
					4,218,697
Brazil - 14.49%					
<i>Nota Do Tesouro Nacional:</i>					
	BRL	10.000%	01/01/2017	20,260,000	4,959,904
	BRL	10.000%	01/01/2021	30,000,000	6,278,988
	BRL	10.000%	01/01/2023	25,830,000	5,127,814
<i>Republic of Brazil:</i>					
	USD	8.250%	01/20/2034	1,896,000	1,995,540 ⁽¹⁾
	USD	7.125%	01/20/2037	1,905,000	1,824,038 ⁽¹⁾
					20,186,284
Colombia - 4.40%					
<i>Bogota Distrito Capital</i>					
	COP	9.750%	07/26/2028	6,130,000,000	2,122,478 ⁽²⁾
<i>Republic of Colombia:</i>					
	COP	10.000%	07/24/2024	7,100,000,000	2,510,931
	COP	7.750%	09/18/2030	5,200,000,000	1,495,864

6,129,273

Costa Rica - 0.35%

Republic of Costa Rica:

USD	4.375%	04/30/2025	300,000	254,812 ⁽³⁾
USD	7.000%	04/04/2044	269,000	234,871 ⁽³⁾

489,683

El Salvador - 3.86%