

Stone Harbor Emerging Markets Total Income Fund
Form N-CSR
February 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-22716

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

Date of fiscal year end: November 30

Date of reporting period: November 30, 2017

Item 1. **Report to Stockholders.**

Distribution Policy

November 30, 2017

Stone Harbor Emerging Markets Total Income Fund (the “Fund”), acting pursuant to a U.S. Securities and Exchange Commission exemptive order and with the approval of the Fund’s Board of Trustees (the “Board”), has adopted a plan, consistent with its investment objectives and policies to support a level distribution of income, capital gains and/or return of capital (the “Plan”). In accordance with the Plan, the Fund currently distributes \$0.1511 per share on a monthly basis.

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

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

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

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Stone Harbor Emerging Markets Total Income Fund Shareholder Letter

November 30, 2017 (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 reinforced during the Fund’s fiscal year ended November 30, 2017 as the market shook off post-US election volatility and generated very strong returns. We continue to believe most EM countries maintain prudent debt levels and substantially lower fiscal deficits relative to the developed world. Furthermore, GDP growth of EM countries taken as a group, continues to expand at a faster rate than in the developed world. In addition, EM debt still offers higher yields than advanced economy debt, even though EMs often have better fundamentals in most cases, based on our analysis.

We believe that a key advantage we have in managing EDI is the latitude to adjust the risk in the portfolio based on our fundamental economic and credit views, as well as our assessment of the macroeconomic environment. Our investment process focuses on allocating to three distinct sectors of EM debt - hard currency sovereigns, local currency sovereigns, and corporates - each of which tend to behave differently in various macroeconomic environments. We also can invest a portion of EDI in 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 twelve months ending November 30, 2017 was 23.02% (net of expenses). For the period, the Fund maintained an average premium to its NAV of 2.17%(1), although the Fund traded at a discount to its NAV during the earlier part of the period until late January 2017. Market tracking indices

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for the three sectors of EM debt(2)— external sovereign debt, local currency debt, and corporate debt — delivered total returns of 10.91%, 15.04% and 8.46%, respectively, during the reporting period.

Our exposure to oil credits was the biggest contributor to Fund performance during the fiscal year. Month-end oil prices ranged from \$45 - \$56 per barrel during the period. Amid this price volatility, oil credits were outstanding performers. The list of countries that were among the main contributors to our performance is quite diverse but a common factor was a dependence on oil production and exports. Our positions in Mexico, Ghana, Iraq, Russia, Angola and Ecuador all made important contributions to Fund returns. Our overweight position in Argentina was the largest single country contributor to our performance during the period. Our allocations to Argentina's external sovereign, local currency sovereign and corporate debt all contributed to returns as investors welcomed the country's return to more orthodox economic policies under the new Macri administration.

Other countries also made an impact on overall Fund performance during the period. Our position in Ukraine's USD denominated debt performed well and contributed to performance. The country benefitted from a reduction of hostilities in eastern Ukraine combined with continued support of the IMF. Our position in Brazil's local currency denominated debt benefitted from continued rate cuts by the Brazilian Central Bank as progress on inflation combined with the visibility of economic recovery from recession. After an extended period of positive returns in Venezuela we reduced our position in Venezuelan credit. That reduction proved timely as Venezuela was the worst performing credit in the USD-denominated sovereign universe during the Fund's fiscal year with virtually all of that negative performance occurring during November 2017. We maintain a position in Venezuela in anticipation of a possible debt restructuring and that position detracted from Fund returns during the fiscal year.

As we mentioned, asset allocation is an important decision in the management of the Fund. Our allocation to local currency denominated sovereign debt ranged between 21% and 45% during the period with our average monthly allocation approximately 37.5%. This allocation generated excellent returns as listed above. Since returns from local currency debt tend to be highly correlated with changes in expectations for GDP growth, we viewed the returns of local currency debt in the fiscal year as evidence that investors continue to gain confidence in the outlook for emerging market growth, we continue to believe that local currency sovereign debt should provide the highest risk-adjusted total returns in the EM universe. Those returns will, however, likely be accompanied by the highest level of volatility, in our view.

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 1.87% per annum for the fiscal year. The level of gross leverage reached a maximum of 33.3% of total assets on January 31, 2017 and a minimum of 23.5% on October 22, 2017. By the end of the reporting period, leverage was 23.7%. Net leverage (gross leverage less cash held) remained lower than gross leverage throughout the period. The Fund's management team varied borrowing levels to reflect the team's outlook on EM risk, increasing borrowings when it felt opportunities had improved and reducing borrowings when, in the team's judgment, macroeconomic risks had risen.

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Stone Harbor Emerging Markets Total Income Fund Shareholder Letter

November 30, 2017 (Unaudited)

The Fund uses various derivative instruments to implement its strategies. These derivatives are utilized to manage the Fund's credit risk, interest rate risk, foreign exchange risk and efficiently gain certain investment exposure. These derivative positions may increase or decrease the Fund's exposure to these risks. At the end of the reporting period the Fund had net exposure to these derivatives of approximately \$1.0 million. Over the course of the reporting period these derivative positions generated net realized gain of approximately \$800 thousand and \$1.3 million in unrealized depreciation for a net decrease in operations of \$1.3 million.

Market Review and Outlook

In our view, the total returns for EM indices for the reporting period were driven by a combination of events in developed markets, country and company-specific news in some emerging markets, and valuations.

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 slow growth and abnormally low interest rates in the developed world helped underscore the higher yields and stronger fundamentals available in emerging markets, attracting investor attention and generating positive returns. These positive returns were generated against a backdrop of policy uncertainty in the US. Trump administration policies, particularly regarding trade, have the potential to create emerging markets volatility in the future. We continue to monitor the policy environment and its potential impact on the Fund.

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

In the past, we have detailed some of the key risks to our constructive outlook for EM debt. Today, those risks seem to emanate from both developed and emerging market countries. The likelihood of increases in US interest rates, the uncertainty surrounding Trump administration policies and the ongoing political and religious strife in the Middle East are all potential risks. On the other hand, a number of risk factors impacting emerging markets have moderated over the Fund's fiscal year. As of the date of this report the market has more clarity on short term interest rate policies from the US Federal Reserve and the European Central Bank; China's growth outlook has stabilized; and the Trump administration has moderated its protectionist trade rhetoric. In assessing all these factors, our base case return scenarios for EM debt over the coming year remain positive. Our view derives from a disciplined investment process

in which we review the ability and willingness of borrowers to repay their debts. We also assess whether current prices of EM bonds, currencies and local interest rates reflect adequate compensation for the risks the Fund is incurring. Based on this analysis we continue to believe that EM debt will generate 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 Investment Partners LP (“Adviser”) attempts to mitigate the risk of loss of principal due to the possibility of a general rise in global interest rates through our investment process that determines sector and country allocations, as well as security selection. We seek to reduce interest rate sensitivity during periods of rising interest rates. Notwithstanding these efforts, rising interest rates would increase the Fund’s cost of leverage and could also decrease the value of its portfolio securities, adversely affecting Fund performance.

We continue to believe that investing in 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 volatile markets and look forward to reporting on EDI in six months.

Sincerely,

Thomas K. Flanagan

Chairman of the Board of Trustees

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
⁽¹⁾*influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund’s shares, or changes in Fund dividends.*

⁽²⁾*JPMorgan EMBI Global Diversified Index, JPMorgan GBI-EM Global Diversified Index, and JPMorgan CEMBI Broad Diversified Index.*

Stone Harbor Emerging Markets Total Income Fund Summary of Portfolio Holdings

November 30, 2017 (Unaudited)

Fund Details

Market Price	\$14.92
Net Asset Value (NAV)	\$15.22
Premium/(Discount)	(1.97%)
Current Distribution Rate ⁽¹⁾	12.15%
Net Assets (in millions)	\$147

Country Allocation

(as a % of Total Net Assets)⁽³⁾ **Country Breakdown**

	%
Brazil	17.50%
Ukraine	10.31%
Mexico	7.82%
Russia	6.86%
South Africa	6.86%
Iraq	6.04%
Uruguay	5.36%
Indonesia	5.32%
Argentina	5.23%
Turkey	5.13%
Ecuador	5.11%
Colombia	4.89%
Ghana	4.77%
Egypt	4.53%
Ivory Coast	3.86%
Gabon	2.85%
Costa Rica	2.61%
El Salvador	2.11%
Jamaica	2.07%
Dominican Republic	2.07%
Kenya	2.07%
Angola	2.03%
Nigeria	1.95%

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Lebanon	1.90%
Pakistan	1.40%
Zambia	1.13%
Venezuela	1.09%
Malaysia	1.06%
Cameroon	1.01%
India	0.72%
Trinidad & Tobago	0.18%
Ethiopia	0.13%
Total	125.97%
Short Term Security	2.81%
Liabilities in Excess of Other Assets	-28.78%
Total Net Assets	100.00%

Security Type Allocation⁽²⁾

Sector Allocation⁽²⁾		Regional Breakdown⁽²⁾		Sovereign Local Currency Breakdown⁽²⁾	
Sovereign Local	42.50%	Latin America	43.58%	Brazilian Real	8.23%
Sovereign External	44.79%	Africa	20.62%	Colombian Peso	3.83%
Corporate	10.45%	Europe	17.40%	Dominican Peso	1.60%
Cash & Equivalents / U.S. Treasuries	2.26%	Middle East	9.57%	Egyptian Pound	3.44%
		Asia	6.57%	Indonesian Rupiah	3.84%
		Cash & Equivalents / U.S. Treasuries	2.26%	Mexican Peso	4.23%
				Nigerian Naira	0.80%
				Russian Ruble	5.39%
				Turkish New Lira	3.58%
				South African Rand	3.35%
				Uruguayan Peso	4.21%
				Total	42.50%

*Less than .005% of Net Assets.

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Current Distribution Rate is based on the Fund's current annualized monthly distribution divided by the Fund's (1) 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.

Based on managed assets and investment manager's sector classifications including derivative exposure. For (2) 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 interest rate swaps as described on page 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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Stone Harbor Emerging Markets Total Income Fund Growth of \$10,000 Investment

November 30, 2017 (Unaudited)

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

Total Returns as of November 30, 2017 (Inception Date, October 25, 2012)

	Average Annual Return				
	6 Month	One Year	Three Year	Five Year	Since Inception
Stone Harbor Emerging Markets Total Income Fund – NAV	6.07%	23.02%	5.90%	2.22%	2.41%
Stone Harbor Emerging Markets Total Income Fund – Market Price	-4.03%	29.31%	7.80%	1.12%	1.10%
JPMorgan CEMBI Broad Diversified Index	2.69%	8.46%	5.44%	4.70%	4.74%
JPMorgan EMBI Global Diversified Index	2.92%	10.91%	6.02%	4.57%	4.63%
JPMorgan GBI-EM Global Diversified Index	2.80%	15.04%	-0.21%	-1.52%	-1.24%

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, management fees and fund expenses or transaction costs. 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 Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of Stone Harbor Emerging Markets Total Income Fund:

We have audited the accompanying statement of assets and liabilities of Stone Harbor Emerging Markets Total Income Fund (the "Fund"), including the statement of investments, as of November 30, 2017, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for the year then ended, for the period from June 1, 2016 through November 30, 2016, and for the year ended May 31, 2016, and the financial highlights for the year then ended, the period from June 1, 2016 through November 30, 2016, each of the three years in the period ended May 31, 2016, and for the period from October 25, 2012 (Commencement of Operations) to May 31, 2013. 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, 2017, by correspondence with the custodian, brokers, and agent banks when replies were not received from brokers or agent banks, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Stone Harbor Emerging Markets Total Income Fund as of November 30, 2017, the results of its operations and its cash flows for the year then ended, the changes in its net assets for the year then ended, for the period from June 1, 2016 through November 30, 2016, and for the year ended May 31, 2016, and the financial highlights for the year then ended, the period from June 1, 2016 through November 30, 2016, each of the three years in the period ended May 31, 2016, and for the period from October 25, 2012 (Commencement of Operations) to May 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

January 29, 2018

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Stone Harbor Emerging Markets Total Income Fund Statement of Investments

November 30, 2017

	Currency	Rate	Maturity Date	Principal Amount/Shares*	Value (Expressed in USD)
SOVEREIGN DEBT OBLIGATIONS -					
99.19%					
Angola - 2.03%					
Republic of Angola:					
	USD	9.50 %	11/12/25	331,000	\$373,823 (1)
	USD	9.50 %	11/12/25	2,307,000	2,605,468 (2)(3)
					2,979,291
Argentina - 4.11%					
Provincia del Chaco					
Republic of Argentina:					
	USD	9.38 %	08/18/24	1,405,000	1,492,812 (2)(3)
	EUR	7.82 %	12/31/33	2,120,576	2,924,705
	USD	8.28 %	12/31/33	524,906	605,939
	EUR	2.26 %	12/31/38	313,339	259,202 (4)
	EUR	2.26 %	12/31/38	879,000	746,485 (4)
					6,029,143
Brazil - 10.39%					
Nota Do Tesouro Nacional:					
	BRL	10.00 %	01/01/21	8,000,000	2,493,517
	BRL	10.00 %	01/01/27	42,625,000	12,750,592
					15,244,109
Cameroon - 1.01%					
Republic of Cameroon					
	USD	9.50 %	11/19/25	1,239,000	1,485,251 (1)(3)
Colombia - 4.78%					
Bogota Distrito Capital					
	COP	9.75 %	07/26/28		