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This Brochure provides information about the qualifications and business practices of Stone Harbor Investment Partners LP. If you have any questions about the contents of this Brochure, please contact us at 212-548-1200. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Stone Harbor Investment Partners LP is an investment adviser registered with the SEC. Such registration does not imply any level of skill or training.

Additional information about Stone Harbor Investment Partners LP also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

Since the last annual update of this Brochure dated August 15, 2012, Stone Harbor Investment Partners LP (“Stone Harbor”) has materially amended this Brochure to include additional information relating to:

1. Stone Harbor’s Custody Policy. *See Item 15.*

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## **Item 4 – Advisory Business**

Stone Harbor Investment Partners LP (“Stone Harbor”) has been providing discretionary and non-discretionary portfolio management services since April 1, 2006.

The principal direct owner of Stone Harbor is SHIP Capital Partners LP.

Stone Harbor primarily provides investment management advice with respect to debt securities issued by foreign governments (in US dollar or local currency), foreign governmental agencies or supranational organizations, Brady bonds, Euro bonds, repurchase agreements and reverse repurchase agreements, forward contracts, currency transactions, participation interests in corporate loans, convertible securities, mortgage backed securities, collateralized mortgage obligations (CMOs), derivative instruments (such as options, futures, swaps, credit default swaps, credit linked notes, interest only (IOs) and principal only (POs) investments, structured instruments and derivatives thereof), asset backed securities, floating rate securities, distressed debt, payment in-kind securities (PIKs) and inflation protected securities. Stone Harbor also provides advice in connection with common stocks, preferred stock, certificates representing securities (such as American Depositary Receipts, Global Depositary Receipts, and European Depositary Receipts), closed-end funds, private issues, equipment trust certificates and real estate investment trusts. Stone Harbor may purchase securities on a when-issued, delayed delivery or forward basis.

Stone Harbor seeks to tailor the investment guidelines and restrictions of separately managed accounts in order to satisfy each client’s credit strategy requirements. Clients may impose restrictions or limitations on securities, including but not limited to limitations by asset class, credit rating, or country weighting. Stone Harbor also serves as an adviser and sub-adviser to pooled investment vehicles that have investment guidelines that are not subject to specific requirements of underlying fund investors.

Stone Harbor does not participate in wrap fee programs.

As of December 31, 2012, Stone Harbor managed approximately \$62,743,400,000 in discretionary assets and did not provide investment advisory services to any non-discretionary client accounts.

## **Item 5 – Fees and Compensation**

In general, all fees are subject to negotiation based on the circumstances of the client and other factors, including but not limited to the type and size of the account and the type of advisory and client-related services to be provided to the account.

Stone Harbor’s portfolio management fees generally range from 0.15% to 1.50% per annum of assets under management. In addition, from time to time, consistent with applicable laws and regulations including Rule 205-3 promulgated under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), Stone Harbor may negotiate incentive (performance-based) fee arrangements in addition to (or in lieu of) asset-based management fees.

Fees are generally payable either monthly or quarterly in arrears. The specific manner in which fees are charged by Stone Harbor is established in a client’s written agreement with Stone

Harbor. Stone Harbor does not deduct fees from client accounts. Stone Harbor generally sends an invoice on a quarterly or monthly basis to clients or their custodians. In certain cases, a client will send payment directly to Stone Harbor based upon its or its custodian's calculation of the fee amount due.

Stone Harbor's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Please see Item 12 for further discussion of Stone Harbor's brokerage practices. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds also charge internal management and other fees, which are disclosed in a fund's prospectus.

The charges, commissions, fees and expenses described in the preceding paragraph are exclusive of and in addition to Stone Harbor's fee, and Stone Harbor will not receive any portion of these charges, commissions, fees and expenses.

Stone Harbor does not generally permit or require clients to pay fees in advance. However, if a client and Stone Harbor agree to a fee arrangement that entitles Stone Harbor to receive fees in advance, then upon termination of the applicable investment advisory contract (or partial redemption of an investment), fees will be rebated to the client (or underlying fund investor if applicable) as appropriate based on the period during which Stone Harbor actually provided advisory services.

Neither Stone Harbor nor any of its supervised persons accepts compensation for the sale of securities or other investment products, such as asset-based sales charges or service fees from the sale of mutual funds.

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

As discussed in Item 5 above, Stone Harbor may negotiate incentive (performance-based) fee arrangements, or may charge a combination of performance-based and asset-based fees.

Performance-based fee arrangements may be viewed as creating an incentive for Stone Harbor to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

However, Stone Harbor has adopted and implemented procedures designed to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

Stone Harbor makes investment decisions for each account independently from those of other accounts managed by Stone Harbor. Thus, at any particular time, two or more accounts may seek to purchase or sell the same securities. If such securities are not available in sufficient quantities, or if Stone Harbor is otherwise unable to purchase or sell all of such securities, then Stone Harbor will allocate transactions in such securities among applicable accounts in a

manner that Stone Harbor deems fair and equitable to all. Stone Harbor's allocation decisions may vary from transaction to transaction and will depend upon factors including, but not limited to, investment guidelines and restrictions, the type of investment, the amount of securities purchased or sold, minimum order size, the size of the account, and the size of an existing position in a client account. Stone Harbor may base its allocations on factors including but not limited to: achieving certain positions by percentage, cash position, country weightings, relative value and position maintenance. Such decisions are not based upon fee structure.

In addition, as discussed in greater detail in Item 12, Stone Harbor may aggregate client trades in these circumstances. Also, because of different investment objectives, a particular security may be purchased for one or more accounts when one or more other accounts are selling the same security.

## **Item 7 – Types of Clients**

Stone Harbor provides portfolio management services to a wide variety of U.S. and non-U.S. institutional accounts, including, but not limited to, retirement plans, including pension and profit sharing plans, state and municipal government entities, supranational organizations, sovereign wealth funds, charitable organizations, multi-employer unions, corporations and other business entities, registered investment companies, registered and unregistered domestic and offshore pooled investment vehicles, including UCITS.

In particular, Stone Harbor serves as investment adviser or sub-adviser to one or more investment companies or funds within the following fund complexes:

Stone Harbor Investment Funds  
Stone Harbor Investment Funds PLC  
Stone Harbor Global Funds PLC  
Harbor Funds  
John Hancock Funds II  
Northern Trust Multi-Advisor Funds  
Principal Funds, Inc.  
Russell Investment Management Company  
Russell Investments Limited  
SEI Institutional International Trust  
SEI Institutional Investments Trust  
SEI Global Investments Limited  
Skandia Fund Management (Ireland) Limited

Stone Harbor generally requires that a client invest at least \$25 million to open and maintain a separately managed account. Stone Harbor may, in its full discretion, waive an account minimum or increase an account minimum to open and maintain a separately managed account. Each pooled investment vehicle for which Stone Harbor serves as an adviser or sub-adviser maintains separate account opening and maintenance requirements, such as minimum investment amounts and one or more investor sophistication requirements. These requirements are generally set forth in each such pooled investment vehicle's offering documents.

### Privacy Policy

Stone Harbor's goal is to protect non-public personal client information. As a registered investment adviser, Stone Harbor is subject to the requirements of Regulation S-P, which seeks

to prevent the disclosure of certain non public client information to third parties, and requires that Stone Harbor establish safeguards that are reasonably designed to: (1) ensure the security and confidentiality of client records and information; (2) protect against any anticipated threats or hazards to the security or integrity of client records and information; and (3) protect against unauthorized access to or use of client records or information that could result in substantial harm or inconvenience to any client. Stone Harbor does not disclose or share any non-public personal client information with anyone (including affiliates), except as permitted by the client, required by law or otherwise provided in Stone Harbor's Privacy Policies and Procedures.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Stone Harbor offers several principal investment strategies as described below. Any particular client account may utilize one or more of the investment strategies described below. Investing in securities involves the risk of loss, including principal, which clients should be prepared to bear.

### *High Yield*

The High Yield strategy seeks to outperform the benchmark through effective sector analysis and intensive credit research. Stone Harbor's disciplined investment process uses fundamental credit research to identify market inefficiencies and potential opportunities.

Stone Harbor seeks to identify attractive industries and sectors through relative value analysis and potential opportunities through in-depth qualitative and quantitative analyses. Specific security selection focuses on stable cash flow generating companies as opposed to rapid growth companies or turnaround situations. Investments are focused in undervalued industries and credits that Stone Harbor believes present sufficient financial flexibility to exist in any market environment.

The High Yield strategy seeks incremental return over the benchmark by making astute industry and market sector allocations while managing risk through heavy issuer diversification and a disciplined review/sell process designed to minimize individual company risk to the portfolio. Through relative value and in-depth qualitative and quantitative analyses, Stone Harbor defines a universe of attractive industries and sectors and then selects securities designed to limit downside risk. Stone Harbor believes that superior risk-adjusted returns can be achieved through a focus on long-term fundamentals, in addition to avoiding liquidity and refinancing risk. Stone Harbor offers both a 100% High Yield core style and a high yield strategy that tactically allocates up to 20% into emerging markets debt.

### *Global High Yield*

The Global High Yield strategy seeks to achieve attractive risk-adjusted returns versus the benchmark by investing in a highly diversified portfolio of U.S. high yield and emerging markets debt securities. Stone Harbor believes the best opportunities in U.S. high yield and emerging markets debt are inefficiencies that can be uncovered through both a fundamental and qualitative research of these markets. Stone Harbor further believes that excellent risk-adjusted returns can be achieved by determining the best portfolio allocation across sectors, industries and countries.

The key portfolio construction step that defines global high yield portfolio management is the asset allocation decision between the two market segments. Global High Yield portfolio asset class allocation weightings are determined through opportunity and risk evaluation and may be customized based on client guidelines.

### Emerging Markets Debt

The Emerging Markets Debt strategy seeks to achieve attractive risk-adjusted returns by investing in a highly diversified portfolio of emerging market credits with tactical allocations to emerging markets local currency and corporate debt.

Stone Harbor believes the emerging debt markets offer attractive long-term return opportunities due to the secular trend of improving credit quality in many emerging markets countries, coupled with significant inefficiencies in these markets.

In addition, emerging markets debt has a relatively low historical correlation with other major asset classes, suggesting that significant benefits may be derived from a diversified portfolio.

Stone Harbor regularly monitors the entire emerging markets debt universe for opportunities to capitalize on market inefficiencies, seeking to enhance our portfolios' long-term performance.

Stone Harbor believes attractive risk-adjusted returns can be achieved in the emerging debt markets through superior country selection based on fundamental analysis, rigorous quantitative fixed income analysis focusing on market inefficiencies among sectors and securities in each country and a focus on reducing risk through active management. In addition, Stone Harbor believes that excellent risk-adjusted returns can be achieved through its disciplined investment process.

This strategy may be implemented either as a broad portfolio that invests in non-investment grade and investment grade debt instruments of emerging markets issuers, or as a portfolio that primarily invests in investment grade debt instruments of emerging markets issuers, based on client guidelines.

### Emerging Markets Debt Total Return

The Emerging Markets Debt Total Return strategy seeks to achieve attractive risk-adjusted returns by investing in a highly diversified portfolio of emerging market credits using derivatives, local currencies and leverage. The strategy attempts to enhance returns by asset allocation within the account or by allowing the use of leverage through borrowing, including loans from certain financial institutions and the use of reverse repurchase agreements. Stone Harbor's Emerging Markets Debt Total Return strategy utilizes the same emerging markets debt investment philosophy and process as the traditional Emerging Markets Debt strategy. In addition, pursuant to specific investment guidelines, Stone Harbor may invest a portion of assets under management in emerging markets equity, primarily via either single country or regional exchange-traded funds (ETFs).

### Emerging Markets Debt Local Currency

The Emerging Markets Debt Local Currency strategy seeks to achieve attractive risk-adjusted returns by investing in a diversified portfolio of emerging market credits in various local currency denominations. Stone Harbor believes the local currency emerging debt markets, primarily sovereign-debt, offer attractive long-term return opportunities due to the secular trend of improving credit quality in many emerging markets countries, coupled with significant inefficiencies in the local currency markets. In addition, emerging markets local currency debt has a relatively low correlation with other major asset classes, suggesting that significant benefits may be derived from a diversified portfolio.

Stone Harbor believes mandates with the broadest degree of allocation ranges present the greatest opportunity to generate alpha. A typical emerging markets debt local currency portfolio

would permit investments in any country meeting the World Bank definition of an emerging country.

We strive to outperform our benchmark's return with a level of volatility that matches the benchmark. In addition, we believe that the lack of dedicated investment management expertise in the developing local markets creates alpha opportunities.

We actively monitor the emerging markets universe for improving credit quality opportunities and undervalued currencies with high real return potential.

This strategy may be implemented either as a broad portfolio that invests in non-investment grade and investment grade local currency denominated debt instruments of emerging markets issuers, or as a portfolio that primarily invests in investment grade local currency denominated debt instruments of emerging markets issuers, based on client guidelines.

#### *Emerging Market Debt Global Allocation*

The Emerging Markets Debt Global Allocation strategies seek to achieve attractive risk-adjusted returns by allocating among hard and local currency emerging markets debt, with tactical allocations to emerging markets corporate debt. Stone Harbor believes that this combination offers attractive long-term opportunities for the following reasons: long term historical correlations between hard currency and local currency debt are relatively low; investor concentration in domestic bond and external debt markets is limited; and the range and variability of returns provides opportunities for exploiting relative value both within and between sectors.

Stone Harbor believes the investment process enables the portfolio managers to determine optimal weightings of local and external debt by combining Stone Harbor's overall market view with fundamental country analysis and quantitative and technical sector and security analysis. The EMD investment team weighs these factors in the context of Stone Harbor's Investment Policy Committee's assessment of risk momentum, growth trends and the long term investment outlook. Periodic meetings of the EMD investment team along with Stone Harbor's asset allocation meetings help enable the portfolio managers to regularly reassess and recalibrate tactical asset allocation decisions based on changing market conditions and relative value. Stone Harbor believes that strong risk-adjusted returns can be achieved through its disciplined investment process and experience in tactical asset allocation.

#### *Emerging Markets Corporate Debt*

The Emerging Markets Corporate Debt strategy seeks to achieve attractive risk-adjusted returns by investing in a diversified portfolio of emerging market corporate credits.

Stone Harbor believes the emerging debt corporate markets offer attractive long-term return opportunities due to the developing trend of corporate issuance and improving credit quality in many emerging markets countries, coupled with significant inefficiencies in these markets.

Stone Harbor believes attractive risk-adjusted returns can be achieved in the emerging debt corporate markets through the economic outlook for the country or countries in which the issuer operates, the prospects for the industry or industries in which the issuer operates the strength of the issuer's financial resources and sensitivity to economic conditions and trends; the issuer's operating history; and the experience and track record of the issuer's management.



Individual security selection is driven by Stone Harbor's analysis of the issuer's credit quality paired with an assessment of valuation. Stone Harbor selects those individual investments that it believes to be most undervalued and to offer the highest potential returns relative to the amount of credit, interest rate, liquidity and other risks presented. Stone Harbor generally allocates investments across a broad range of issuers, industries and countries, which may help to reduce risk.

This strategy may be implemented either as a broad portfolio that invests in non-investment grade and investment grade corporate debt instruments of emerging markets issuers, or as a portfolio that primarily invests in investment grade corporate debt instruments of emerging markets issuers, based on client guidelines.

#### *LIBOR Plus*

The LIBOR Plus strategy seeks to provide a high level of current income, liquidity and preservation of capital, through active management of high quality short-term fixed income securities. The strategy aims to provide higher returns than traditional money market instruments without a substantial increase in interest rate or credit risk. Interest rate risk is managed by generally keeping portfolio duration in a range of 0.5 - 1.0 year, and credit risk is minimized through the use of government, governmental agency or AAA-rated investments. The LIBOR Plus active investment process focuses on risk management, total return and thorough credit analysis. Portfolios are customized based on specific return objectives; risk tolerance and liquidity needs and managed with the goal of providing the highest possible return within those parameters. Investment opportunities are sought in a variety of sectors, including investment-grade corporate bonds, adjustable- and fixed-rate mortgages, money markets, asset-backed securities, U.S. agency securities, U.S. Treasuries, fixed- and floating-rate notes and collateralized mortgage obligations.

#### *Mortgage Backed Securities*

The Mortgage Backed Securities strategy seeks to capture the best relative value opportunities in the mortgage securities market while simultaneously managing risk. Stone Harbor's mortgage-backed investment process is a quantitative, bottom-up, relative value approach emphasizing risk management. Throughout the process, risk management and the client's investment guidelines are closely monitored. The approach focuses on sector allocation and security selection to add value. The process is designed to find undervalued securities and sectors through rigorous option-adjusted spread, total return projection and historical spread and prepayment trend analysis. Stone Harbor's risk management for mortgage-backed securities is a continuous process emphasizing portfolio risk attributions, tracking error analysis and performance attribution. Risk and return characteristics are monitored through proprietary quantitative tools that analyze mortgage prepayment, total rate of return, option-adjusted spread, effective duration and key rate duration models. All mortgage securities held by the portfolios, as well those in the mortgage index, are analyzed daily, allowing Stone Harbor to measure benchmark deviation across multiple dimensions of risk. We believe experienced professionals coupled with superior proprietary mortgage analytics and portfolio management systems allow Stone Harbor to add value in the areas of duration management, yield curve positioning, sector allocation and security selection.

Stone Harbor offers both a 100% core mortgage-backed securities style and a mortgage strategy that seeks to increase returns through tactical allocations to mortgage credit securities.

#### *Core Fixed Income*

The Core Fixed Income strategy seeks to provide consistent relative performance by applying a disciplined investment process supported by in-depth proprietary research. Within the scope of

each client's investment guidelines, Stone Harbor's Core Fixed Income team explores every sector of investment opportunity permitted, including U.S. Treasuries, Agencies, sovereigns, supranationals, fixed-rate mortgages, adjustable-rate mortgages, investment grade corporate bonds, asset-backed securities and money market instruments. Investment allocations are based on a thorough assessment of relative value expectations among market sectors, issue types, and quality sectors, as well as among individual securities. These expectations are derived from a broad range of qualitative and quantitative factors, including yield curve shape, interest rate volatility, yield-spread relation; option-adjusted spread and total return projections under varying interest rate scenarios. We believe Stone Harbor's Core Fixed Income team adds value through in-depth proprietary research in credit and structured investments, a thorough understanding of sectors, a team of experienced and stable portfolio managers, who also serve as asset class or sector specialists, and its sophisticated risk management strategy.

### *Core Plus Strategies*

The Core Plus Strategies seek to enhance the returns of core fixed income portfolios by capitalizing on cross-sector opportunities through tactical allocations to non-core fixed income sectors, including high yield and foreign bonds. The strategies seek greater, long-term returns vs. core fixed income portfolio through the use of credit quality-driven fixed income instruments to enhance the returns of traditional core domestic bond portfolios without significantly increasing risk. Despite the volatility associated with investments in high yield and emerging markets debt, Stone Harbor believes these asset classes offer excellent opportunities for long-term, relatively risk-tolerant investors to pursue higher reward investments with modest additional risk. Allocations to high yield and emerging markets debt are managed as if they were stand-alone portfolios by sector specialists who attempt to maximize potential returns within each sector of the market. Stone Harbor seeks to invest in the more liquid investments within sectors, enabling efficient asset allocation changes.

Stone Harbor offers two different Core Plus strategies: (i) a Core Plus strategy that may invest up to 20% of assets outside of U.S. core fixed income in high yield, non-U.S. investment grade and emerging markets debt and (ii) a Core Plus Total Return strategy that allows unrestricted allocations outside of U.S. core fixed income while managing tracking error and credit quality objectives.

### *Diversified Global Credit*

The Diversified Global Credit strategies seek to enhance long-term total returns through tactical asset allocation and security selection along with careful risk management. Stone Harbor actively allocates among credit-related asset classes based on its views of the relative value of each sector, including but not limited to investment grade corporate and securitized credit, emerging markets sovereign and corporate debt, high yield, bank loans, and convertible securities. In evaluating investment opportunities, Stone Harbor uses a "top-down" approach to determine a decision-making framework. Fundamental credit analysis, including bottom-up valuations and cross-market analyses, is performed to determine sector allocation, as well as security selection, position sizing and risk management. In allocating among different sectors, the following are some of the factors Stone Harbor may consider to make tactical investment decisions: the market environment; risk positioning; target return expectations; sources of return; and favored sectors and portfolio characteristics. Risk tools and analytics are also used to make investment decisions. Stone Harbor typically selects those individual investments that it believes to be most undervalued and to offer the highest potential returns relative to the amount of credit, interest rate, liquidity and other risks presented.

### Leveraged Loans

The Leveraged Loan strategy seeks to outperform the benchmark through effective sector analysis and intensive credit research of the entire investable universe, including but not limited to senior bank loans, bank obligations, bank loans, participations and assignments. Through relative value and in-depth qualitative and quantitative analyses, Stone Harbor defines a suitable universe of attractive industries and sectors. Specific security selection focuses on stable cash flow generating companies as opposed to rapid growth companies or turnaround situations. We focus our investments in undervalued industries and credits that present sufficient financial flexibility to exist in any market environment. We attempt to limit downside risk through heavy issuer diversification designed to minimize individual company exposure within the portfolio and a disciplined review/sell process. Stone Harbor believes a focus on long-term credit fundamentals, in addition to avoiding liquidity and refinancing risk, provides superior long-term returns in any market.

### Convertibles

The convertible security investment strategy seeks to outperform the convertible securities market through effective security selection. This strategy relies on Stone Harbor's disciplined investment process utilizing fundamental research and corporate structure analysis to identify securities that provide above-average returns while protecting downside risk. Stone Harbor seeks to identify attractive investment opportunities by utilizing in-depth fundamental industry and company analysis combined with relative value views across global industry sectors. We overlay this detailed analysis with a multi-faceted convertible securities valuation technique that emphasizes accurately valuing the down side risk in a convertible security. Stone Harbor uses internal and external models to value the derivative securities in the convertible market. We seek to invest in convertible securities that offer investors asymmetrical risk adjusted returns.

## **RISKS**

### Credit Risk

*(Credit Risk is applicable to all strategies.)*

Credit risk is the risk that an issuer of, for example, a fixed income security, leveraged loan or preferred stock, or the counterparty to a derivatives contract, will be unable to make interest, principal, dividend, or other payments when due. In general, lower rated (including defaulted) securities and leveraged loans carry a greater degree of credit risk. If rating agencies lower their ratings of securities in a client's portfolio, the value of those obligations could decline. In addition, the underlying revenue source for a fixed income security, a preferred stock or a derivatives contract may be insufficient to pay dividends, interest, principal or other required payments in a timely manner.

Because a significant primary source of income for a client is the dividend, interest, principal and other payments on the fixed-income securities, preferred stocks and derivatives in which it invests, any default by an issuer of such an instrument could have a negative impact on a client's ability to receive dividends. Even if the issuer does not actually default, adverse changes in the issuer's financial condition may negatively affect its credit rating or presumed creditworthiness. These developments would adversely affect the market value of the issuer's obligations or the value of credit derivatives if Stone Harbor has sold credit protection.

### Interest Rate Risk

*(Interest Rate Risk is applicable to all strategies.)*

Interest rate risk is the risk that investments will decline in value because of changes in market interest rates. When interest rates rise the market value of fixed-income securities generally will fall. Stone Harbor's investment in such securities means that the price of certain securities may decline if market interest rates rise. Interest rates are currently low relative to historic levels. During periods of declining interest rates, an issuer of fixed-income securities may exercise its option to redeem or prepay securities prior to maturity, which could result in Stone Harbor having to reinvest in lower yielding fixed-income securities or other types of securities. This is known as call or prepayment risk. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected payments. This may lock in a below market yield, increase the security's duration, and reduce the value of the security. This is known as extension risk. Investments in debt securities with long-term maturities may experience significant price declines if long-term interest rates increase. This is known as maturity risk.

### Liquidity Risk

*(Liquidity Risk is applicable to all strategies.)*

Liquidity risk is the risk that the investment will be sold at a price below its fair value, where that fair value is indicated by a recent transaction in the market. The primary measure of liquidity is the spread between the bid and asked price by a broker. Generally, the wider the spread, the greater the liquidity risk.

### Corporate Debt Risk

*(Risks associated with investments in Corporate Debt are applicable to all strategies.)*

Stone Harbor may invest in debt securities of non-governmental issuers. Like all debt securities, corporate debt securities generally represent an issuer's obligation to repay to the investor (or lender) the amount borrowed plus interest over a specified time period. A typical corporate bond specifies a fixed date when the amount borrowed (principal) is due in full, known as the maturity date, and specifies dates when periodic interest (coupon) payments will be made over the life of the security.

Corporate debt securities come in many varieties and may differ in the way that interest is calculated, the amount and frequency of payments, the type of collateral, if any, and the presence of special features (e.g., conversion rights). Stone Harbor's investments in corporate debt securities may include, but are not limited to, senior, junior, secured and unsecured bonds, notes and other debt securities, and may be fixed rate, floating rate, zero coupon and inflation linked, among other things. Stone Harbor may invest in convertible bonds and warrant structures, which are fixed income securities with imbedded warrants that are exercisable into other debt or equity securities. Upon conversion of such securities into equity securities, the equity securities will be sold.

Prices of corporate debt securities fluctuate and, in particular, are subject to several key risks including, but not limited to, interest-rate risk, credit risk, prepayment risk and spread risk. The market value of a corporate bond may be affected by the credit rating of the corporation, the corporation's performance and perceptions of the corporation in the market place. There is a risk that the issuers of the corporate debt securities in which Stone Harbor may invest may not

be able to meet their obligations on interest or principal payments at the time called for by an instrument.

#### Non-Investment Grade Securities Risk

*(Risks associated with Non-Investment Grade securities are primarily applicable to Global High Yield, High Yield and Leveraged Loans strategies; and are also applicable to Emerging Market Debt, Emerging Market Debt Total Return, Emerging Market Debt Local Currency, Emerging Market Debt Global Allocation and Convertibles strategies.)*

Stone Harbor's investments in fixed-income securities and preferred stocks of below investment grade quality (commonly referred to as "high yield" or "junk bonds"), if any, are predominantly speculative because of the credit risk of their issuers. While offering a greater potential opportunity for capital appreciation and higher yields, such below investment grade securities entail greater potential price volatility and may be less liquid than higher-rated securities. Issuers of below investment grade quality securities are more likely to default on their payments of interest and principal owed to a client, and such defaults will reduce the client's account value and income distributions. The prices of these lower quality securities are more sensitive to negative developments than higher rated securities.

Adverse business conditions, such as a decline in the issuer's revenues or an economic downturn, generally lead to a higher non-payment rate. In addition, such a security may lose significant value before a default occurs as the market adjusts to expected higher non-payment rates.

#### Investments in Foreign Securities

*(Risks associated with Investments in Foreign Securities are primarily applicable to Global High Yield, Emerging Market Debt, Emerging Market Debt Total Return, Emerging Market Debt Local Currency, Emerging Market Debt Global Allocation and Convertibles strategies.)*

Investing in foreign securities involves certain special considerations that are not typically associated with investments in the securities of U.S. issuers. Foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards and may have policies that are not comparable to those of domestic issuers. As a result, there may be less information available about foreign issuers than about domestic issuers. Securities of some foreign issuers may be less liquid and more volatile than securities of comparable domestic issuers.

There is generally less government supervision and regulation of securities markets, brokers and issuers than in the United States. In addition, with regard to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, political and social instability, or diplomatic developments, which could affect the value of investments in those countries. The costs of investing in foreign countries frequently are higher than the costs of investing in the United States. Although Stone Harbor endeavors to achieve the most favorable execution costs in portfolio transactions, trading costs in non-U.S. securities markets are generally higher than trading costs in the United States.

Investments in securities of foreign issuers often will be denominated in foreign currencies. Accordingly, the value of a client's assets, as measured in U.S. dollars, may be affected favorably or unfavorably by changes in currency exchange rates and in exchange control regulations. A client may incur costs in connection with conversions between various currencies.

Certain foreign governments levy withholding or other taxes on dividend and interest income. Although in some countries a portion of these taxes are recoverable, the non-recovered portion of foreign withholding taxes will reduce the income received from investments in such countries.

From time to time, Stone Harbor may have invested in certain sovereign debt obligations that are issued by, or certain companies that operate in or have dealings with, countries that become subject to sanctions or embargoes imposed by the U.S. government and the United Nations and/or countries identified by the U.S. government as state sponsors of terrorism. Investments in such countries may be adversely affected because, for example, the credit rating of the sovereign debt security may be lowered due to the country's instability or unreliability or the company may suffer damage to its reputation if it is identified as a company which operates in, or has dealings with, such countries. As an investor in such companies, a client will be indirectly subject to those risks.

#### *Investments in Emerging Market Countries Risk*

*(Risks associated with investments in Emerging Market Countries are primarily applicable to Global High Yield, Emerging Market Debt, Emerging Market Debt Total Return, Emerging Market Debt Local Currency, Emerging Market Debt Global Allocation and Convertibles strategies.)*

Investing in the securities of issuers located in emerging market countries involves special considerations not typically associated with investing in the securities of other foreign or U.S. issuers, including heightened risks of expropriation and/or nationalization, armed conflict, confiscatory taxation, restrictions on transfers of assets, lack of uniform accounting and auditing standards, less publicly available financial and other information and potential difficulties in enforcing contractual obligations.

The economies of individual emerging market countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments position.

Governments of many emerging market countries have exercised and continue to exercise substantial influence over many aspects of the private sector, including ownership or control of companies. Accordingly, government actions could have a significant effect on economic conditions in an emerging market country and on market conditions, prices and yields of securities in a client's portfolio.

Moreover, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be adversely affected by economic conditions in the countries with which they trade. With regard to any emerging market country, there is the possibility of nationalization, expropriation or confiscatory taxation, political changes, government regulation, overburdened and obsolete or unseasoned financial systems, environmental problems, less developed legal systems, economic or social instability or diplomatic developments (including war), which could affect adversely the economies of such countries or the value of a client's investments in those countries. It also may be difficult to obtain and enforce a judgment in a court outside of the United States.

In addition, the economies of emerging market countries have become more interrelated in recent years, which may vitiate any attempt by Stone Harbor to reduce risk through geographic diversification of its portfolio investments.

Investments in emerging market countries may entail purchasing securities issued by or on behalf of entities that are insolvent, bankrupt, in default or otherwise engaged in an attempt to reorganize or reschedule their obligations or in entities that have little or no proven credit rating or credit history. In any such case, the issuer's poor or deteriorating financial condition may increase the likelihood that a client will experience losses or diminution in available gains due to bankruptcy, insolvency or fraud.

Investments in emerging market countries may also be exposed to an extra degree of custodial and/or market risk, especially where the securities purchased are not traded on an official exchange or where ownership records regarding the securities are maintained by an unregulated entity (or even the issuer itself).

#### *Sovereign Debt Obligations Risk*

*(Risks associated with investments in Sovereign Debt Obligations are primarily applicable to Global High Yield, Emerging Market Debt, Emerging Market Debt Total Return, Emerging Market Debt Local Currency, and Emerging Market Debt Global Allocation strategies.)*

Investments in emerging market countries' government debt obligations involve special risks. Certain emerging market countries have historically experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties and extreme poverty and unemployment. The issuer or governmental authority that controls the repayment of an emerging country's debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt.

A debtor's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation and, in the case of a government debtor, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the government debtor's policy towards the International Monetary Fund and the political constraints to which a government debtor may be subject. Government debtors may default on their debt and may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearages on their debt.

The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a debtor's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations.

Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the government debtor, which may further impair such debtor's ability or willingness to service its debts on a timely basis. Holders of government debt, including a client of Stone Harbor, may be requested to participate in the rescheduling of such debt and to extend further loans to government debtors. Restructuring arrangements may include reducing and

rescheduling interest and principal payments by negotiating new or amended credit agreements, and obtaining new credit to finance interest payments.

As a result of the foregoing, a government obligor may default on its obligations. If such an event occurs, Stone Harbor may have limited legal recourse against the issuer and/or guarantor. Remedies must, in some cases, be pursued in the courts of the defaulting party itself, and the ability of the holder of foreign government debt securities to obtain recourse may be subject to the political climate in the relevant country.

In addition, the holders of more senior fixed income securities, such as commercial bank debt, may contest payments to the holders of other foreign government debt securities in the event of default under their commercial bank loan agreements.

Investments in emerging market countries' government debt securities involve currency risk.

#### Foreign Currency Risk

*(Risks associated with Foreign Currency are primarily applicable to Global High Yield, Emerging Market Debt, Emerging Market Debt Total Return, Emerging Market Debt Local Currency, Emerging Market Debt Global Allocation and Convertibles strategies.)*

Stone Harbor may invest client assets in securities that are not denominated in U.S. dollars. As a result, a client is subject to the risk that those currencies will decline in value relative to the value of the U.S. dollar.

The values of the currencies of the emerging market countries in which Stone Harbor may invest may be subject to a high degree of fluctuation due to changes in interest rates, the effects of the monetary policies of the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. Therefore, a client's exposure to foreign currencies may result in losses to the client.

In addition to changes in the value of clients' portfolio investments resulting from currency fluctuations, a client may incur costs in connection with conversions between various currencies. Foreign exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Stone Harbor will conduct its foreign currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the foreign currency exchange market or in the derivatives markets, including through entering into forward, futures or options contracts to purchase or sell foreign currencies.

Currency exchange rates may be negatively impacted by rates of inflation, interest rate levels, balance of payments and governmental surpluses or deficits in the emerging market countries in which Stone Harbor invests.

Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries. Governments that issue obligations may engage in certain techniques to control the value of their local currencies. Such techniques include central bank intervention, imposition of regulatory controls or the imposition of taxes that may impact the exchange rates of the local currencies in which the debt securities are denominated. Emerging market countries may also issue a new currency to replace an existing currency or may devalue their currencies. The



liquidity and market values of the investments of Stone Harbor clients in emerging markets may be impacted by such government actions.

Stone Harbor may, from time to time, seek to protect the value of some portion or all of its portfolio holdings against currency risks by engaging in currency hedging transactions. Such transactions may include entering into forward currency exchange contracts, currency futures contracts and options on such futures contracts, the use of other derivatives, as well as purchasing put or call options on currencies, in U.S. or foreign markets. Currency hedging involves special risks, including possible default by the other party to the transaction, illiquidity and, to the extent Stone Harbor view as to certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if they had not been used. In addition, in certain countries in which Stone Harbor may invest, currency hedging opportunities may not be available.

#### Convertible Securities Risk

*(Risks associated with Convertible Securities are primarily applicable to the Convertibles strategy.)*

Convertible securities (“Convertibles”) are generally debt securities or preferred stocks that may be converted into common stock. Convertibles typically pay current income as either interest (debt security convertibles) or dividends (preferred stocks). A Convertible’s value usually reflects both the stream of income payments and the value of the underlying common stock. The market value of a Convertible performs like that of a regular debt security; that is, if market interest rates rise, the value of a Convertible usually falls. Since it is convertible into common stock and generally a subordinated security, the Convertible has the same types of market and issuer risk as the underlying common stock. Convertibles are also subject to the normal risks associated with debt securities, such as interest rate risks, credit spread expansion and ultimately default risk, as discussed above. Convertibles are also prone to liquidity risk as demand can dry up periodically, and bid/ask spreads on bonds can widen significantly.

An issuer may be more likely to fail to make regular payments on a Convertible than on its other securities in the capital structure as Convertibles are often lower in the capital structure. However, Convertibles usually have a claim prior to the issuer’s common stock. In addition, for some Convertibles, the issuer can choose when to “call” (redeem) the Convertible, thus forcing the investor to convert their security.

#### Market Disruption and Geopolitical Risk

*(Market Disruption and Geopolitical Risks are primarily applicable to Global High Yield, Emerging Market Debt, Emerging Market Debt Total Return, Emerging Market Debt Local Currency, and Emerging Market Debt Global Allocation strategies.)*

The wars in and continuing occupations of Iraq and Afghanistan, instability in the Middle East and terrorist attacks around the world, among other things, have resulted in market volatility and may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide.

Stone Harbor does not know how long the securities markets will continue to be affected by these events and cannot predict the effects of the occupation or similar events in the future on the U.S. economy and global securities markets.

### Leverage Risk

*(Risks associated with leverage are primarily applicable to the Emerging Markets Debt Total Return strategy.)*

Certain client accounts may utilize leverage, typically, but not exclusively, by entering into reverse repurchase agreements or borrowing money. Leveraging is a speculative technique and there are special risks and costs involved. The use of leverage would result in more risk to a client account than if leverage had not been used and can magnify the effect of any losses. If the income and gains from securities to which a client account has exposure through the use of leverage do not cover the payments due in connection with the leverage used, the return will be less than if such leverage had not been used. As a result, leveraging may cause a client account to set aside or liquidate portfolio assets to satisfy its obligations.

### Exchange-Traded Fund Risk

*(Risks associated with Exchange-Traded Funds are primarily applicable to the Emerging Markets Debt Total Return strategy.)*

Stone Harbor may gain exposure to emerging markets equity through investments in equity exchange-traded funds (ETFs). Such ETFs are subject to the risks of the underlying emerging markets equity securities in which the ETF invests. For instance, the market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. In addition, investors in an ETF bear their share of the ETF's expenses, in addition to any management or performance fees charged by Stone Harbor. Investments in ETFs involve the risk that the ETF's performance may not track the performance of the index or markets the ETF is designed to track. In addition, ETFs often use derivatives to track the performance of the relevant index and, therefore, investments in those ETFs are also subject to risks associated with investing in derivatives.

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Clients should refer to their investment management agreement and related investment guidelines and restrictions or, in the case of pooled investment vehicles, in the fund's offering documents for a more detailed discussion of applicable risks.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Stone Harbor or the integrity of Stone Harbor's management. Stone Harbor has no information applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Certain Stone Harbor employees are registered representatives of a special purpose broker dealer, ALPS Distributors, Inc. ("ADI"). Stone Harbor is also a branch office of ADI. In addition, ADI and an affiliate of ADI, ALPS Fund Services, provide distribution and administration services, respectively, to certain of Stone Harbor's U.S. investment company clients. Stone Harbor is registered with the Commodity Futures Trading Commission as a Commodity Trading Advisor.

As noted in Item 7 above, Stone Harbor acts as an adviser or sub-adviser to various investment companies, including investment companies registered under the Investment Company Act of 1940 (“Investment Company Act”).

Stone Harbor has an affiliated adviser, Stone Harbor Investment Partners (UK) LLP (“Stone Harbor UK”), located in the United Kingdom and registered with the Financial Services Authority. Stone Harbor UK is a subsidiary of Stone Harbor. All Stone Harbor UK portfolio managers are also members of Stone Harbor’s Investment Policy Committee. Stone Harbor UK also provides Stone Harbor with various marketing, portfolio management and other services.

Stone Harbor also has established an affiliated entity in Singapore, Stone Harbor Investment Partners Pte. Ltd. (“Stone Harbor Singapore”), which currently is solely dedicated to servicing Stone Harbor’s clients in Asia. Stone Harbor Singapore does not currently conduct investment advisory services or portfolio management services. Stone Harbor Singapore has lodged the relevant notification with the Monetary Authority of Singapore (the “MAS”) to undertake fund management activity in Singapore as an exempt fund manager. Stone Harbor Singapore has submitted its application to become a Registered Fund Management Company with the MAS, which, as of the date of this Brochure, is pending approval.

Stone Harbor does not recommend or select other investment advisers for its clients.

#### **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

As part of an overall internal compliance program, Stone Harbor has adopted a Code of Ethics that imposes standards of business conduct, including requirements to put client interests first and not to take inappropriate advantage of employment-related information, seeks to minimize potential conflicts of interests between employees and investment advisory clients and helps to ensure compliance with applicable laws and regulations.

The Code of Ethics also imposes restrictions on employee personal securities transactions and accounts. Such restrictions include prohibitions on trading in securities while in possession of related material, nonpublic information, minimum holding periods, blackout periods, and (with certain exceptions) reporting of personal securities accounts, transactions and/or holdings to the Chief Compliance Officer.

The Code of Ethics also generally requires Stone Harbor partners, officers and employees to obtain pre-approval of personal securities transactions involving fixed-income securities and certain equities from the Chief Compliance Officer. Existing and prospective Stone Harbor clients may obtain copies of the Code of Ethics by mailing a written request for such document to:

STONE HARBOR INVESTMENT PARTNERS LP  
31 West 52<sup>nd</sup> Street  
16<sup>th</sup> Floor  
New York, NY 10019  
Attention: Chief Compliance Officer

Subject to the provisions of the Code of Ethics, Stone Harbor's officers and employees may from time to time have acquired or sold, or may subsequently acquire or sell, for their personal accounts securities which may also be purchased or sold for the accounts of Stone Harbor's clients.

Stone Harbor, its affiliates and partners, officers and employees may engage in transactions or cause or advise a particular client to engage in transactions which may differ from or be identical to the transactions engaged in by Stone Harbor for other accounts. Stone Harbor shall not have any obligation to engage in any transaction for a client's account or to recommend any transaction to a client in which any of Stone Harbor's affiliates may engage either for their own accounts or the account of any other client, except as otherwise required by applicable law.

In connection with its investment activities, Stone Harbor may receive information that is not generally available to the public. Stone Harbor is not obligated to make such information available to its clients or to use such information to effect transactions for its clients. Also, at times, Stone Harbor's partners or employees may come into possession of material, non-public information. Under applicable law, Stone Harbor is prohibited from improperly disclosing or using such information, including for the benefit of a client. Stone Harbor maintains policies and procedures that preclude trading on the basis of, or taking any other action to take advantage of, material non-public information. These procedures may limit Stone Harbor from being able to purchase or sell securities of the issuer to whom the material, non-public information pertains.

In many cases, Stone Harbor's fees are based on the value and performance of the assets held in the client account. Stone Harbor generally does not price securities or other assets for purposes of determining fees. However, to the extent permitted by applicable laws, Stone Harbor may be charged with the responsibility to, or have a role in, determining asset values with respect to accounts from time to time. For example, Stone Harbor may be required to price a portfolio holding, in accordance with applicable valuation procedures, when a market price is not readily available or when Stone Harbor has reason to believe that the market price is unreliable. To the extent Stone Harbor's fees are based on the value or performance of client accounts, Stone Harbor would benefit by receiving a fee based on the impact, if any, of an increased value of assets in an account. When pricing a security, Stone Harbor attempts, in good faith and in accordance with applicable laws, to determine the fair value of the security or other assets in question. Stone Harbor generally relies on prices provided by a third party pricing source or a broker-dealer for valuation purposes.

To the extent permitted by applicable law, Stone Harbor's compliance policies and procedures, and a client's investment guidelines, Stone Harbor may exercise its discretion to execute "cross trades" between different clients (including mutual funds). In a "cross trade," Stone Harbor, as investment manager to a client account, causes that client account to purchase a security directly from another client account without the use of a broker-dealer. Cross trades may benefit clients on both sides of the trade by eliminating the need to pay a spread, mark-up or commission to a counterparty.

However, cross trades also present a potential conflict of interest because Stone Harbor represents the interests of both the selling account and the buying account in the same transaction. As a result, clients for whom Stone Harbor executes cross trades bear the risk that one counterparty to the cross trade may be treated more favorably than the other party, particularly in cases where the first party pays Stone Harbor higher management fees.

Additionally, there is a risk that the price of a security bought or sold through a cross trade may not be as favorable as it might have been had the trade had been executed in the open market.

Stone Harbor has adopted various procedures to see to address these potential conflicts of interest and risks. First, Stone Harbor always seeks to ensure that internal cross trades are fair and in the best interests of all participating accounts, and that only eligible clients participate. Second, Stone Harbor receives no additional fee, and seeks best execution for each participating client. Third, if a mutual fund (registered investment company) participates, the cross trade must be executed in accordance with the requirements of Rule 17a-7 under the Investment Company Act. Stone Harbor may also execute cross trades on behalf of clients subject to the Employee Retirement Income Security Act of 1974 (“ERISA”). Such transactions will be structured in accordance with the applicable requirements of ERISA.

## **Item 12 – Brokerage Practices**

Stone Harbor generally has the authority to make all determinations regarding securities to be purchased or sold, the amount of such securities to be purchased or sold, the use of broker-dealers and commissions paid.

In placing orders, Stone Harbor seeks to obtain best execution taking into account factors such as the overall performance and dealer’s spread or mark-up, general execution and operational facilities of the broker or dealer, the stability of the broker or dealer, execution and settlement capabilities, time required to negotiate and execute the trade and research services. While Stone Harbor generally seeks the best price in placing its orders, an account may not necessarily be paying the lowest price available.

Stone Harbor does not utilize soft dollars and does not “pay-up” for research. Stone Harbor receives, without cost and unrelated to the execution of securities transactions, a broad range of research services from broker-dealers, including information on the economy, industries, groups of securities and individual companies, statistical information, market data, accounting and legal interpretations, political developments, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and other information which may affect the economy and/or security prices. Stone Harbor may also pay broker-dealers and their affiliates for certain specialized data and services, such as benchmark information, that are also unrelated to the execution of securities transactions.

In selecting or recommending broker-dealers, Stone Harbor does not consider whether Stone Harbor or an affiliate receives client referrals from such broker-dealer. Furthermore, Stone Harbor does not select or recommend broker-dealers based upon financial, personal, blood and/or affinity relationships shared between the personnel of such broker-dealers and Stone Harbor.

Certain Stone Harbor clients may be broker-dealers through which Stone Harbor may also execute transactions. Stone Harbor may be viewed as having an incentive to select these broker-dealers to execute client transactions. However, Stone Harbor has developed procedures that are intended to ensure that Stone Harbor is complying with its obligation to seek best execution. For example, on a periodic basis, Stone Harbor will monitor and evaluate the performance and execution capabilities of the broker-dealers through which Stone Harbor executes trades.

Stone Harbor may accept directed brokerage arrangements, subject to several conditions, including but not limited to an understanding that Stone Harbor retains its obligation to seek best execution and that the client requesting such an arrangement provides Stone Harbor with targets for multiple broker-dealers.

Stone Harbor generally executes foreign exchange transactions through broker-dealers. Stone Harbor will use a client's custodian to execute foreign exchange transactions when required to by law or for certain operational considerations. For example, Stone Harbor may use client custodians to effect foreign currency transactions in connection with the repatriation of income.

As noted in Item 6 above, Stone Harbor does periodically aggregate client trades. Clients participating in aggregated orders will generally receive the same average price. In certain instances, Stone Harbor may need to execute multiple trades in the same fixed-income security through different broker-dealers because a particular broker-dealer may not be able or willing to trade in the quantity or price that Stone Harbor seeks.

In such cases, the aggregation of such orders is not practically possible as most trade orders for fixed-income securities are executed or filled when they are placed and as a result each fixed-income trade order placed with a different broker-dealer is considered a separate order and different accounts will not participate in an average price.

From time to time, custodians or broker counterparties may make a claim or claim payment in connection with Stone Harbor's active management of a Client's account. Claim payments are typically transaction expenses assessed by custodian banks as overdraft charges or broker counterparties for compensation related to the counterparty's use of funds. Stone Harbor maintains policies and procedures addressing such claims. Counterparties frequently establish *de minimis* amounts (generally \$500.00) below which they will not reimburse the client for a claim. Stone Harbor has also established a *de minimis* amount of \$500.00 below which it generally will not reimburse the client, unless Stone Harbor is responsible for the fail or claim. The client is generally free to pursue recovery of the claim amount directly from the counterparty.

### **Item 13 – Review of Accounts**

Stone Harbor's Investment Policy Committee ("IPC") meets monthly to discuss broad economic and financial trends, and to set global investment policy. The IPC is comprised of senior portfolio managers across all fixed-income asset classes and other senior members of Stone Harbor, and seeks to identify economic scenarios and alternative risk scenarios across the markets in order to determine possible areas of opportunity. In addition, Stone Harbor's executive officers and portfolio managers meet periodically to review investment selections and opportunities, market developments, adherence to client objectives, and related matters of general relevance to various lines of Stone Harbor's business. Portfolio managers responsible for a particular line of business monitor their respective client accounts periodically with a view to all facets of portfolio management, including client objectives, market diversification, yield and current market activity and trends. The appropriate senior portfolio manager reviews client investment profiles, generally on an annual basis.

The number of accounts reviewed by each portfolio manager varies depending on the nature and size of the accounts under management.

Stone Harbor's clients generally receive annual and either monthly or quarterly statements regarding their accounts that include details pertaining to the activity, yield and current market value of such accounts during the applicable reporting period.

Depending on the nature of services to be provided and the client's objective, however, Stone Harbor may provide reports to a client on other than a monthly or quarterly and annual basis and may vary the content of those written reports in consultation with that client.

Clients may also receive monthly statements and confirmations of transactions from the custodian for the client's account. Finally, investors in the pooled investment vehicles advised or sub-advised by Stone Harbor will receive various periodic and annual written reports as set forth in each such fund's offering documents.

In addition, Compliance personnel conduct pre- and post-trade screening of accounts for compliance with client investment guidelines and restrictions, as well as with certain regulatory requirements. In connection with the oversight of client investment guidelines and trading, Compliance personnel and portfolio managers interact on a regular basis. Compliance personnel also help identify scenarios related to client investment guidelines monitoring, as determined by the specific client agreement.

#### Error Correction Policy

Although Stone Harbor exercises due care in making and implementing its investment decisions and allocating its trades, nonetheless, guideline breaches and trade errors (including certain operational and settlement errors) may inadvertently occur from time to time. When a breach or error occurs, Stone Harbor will seek to rectify the breach or error with an objective of putting the client in the position that it would have been in had the breach or error not occurred. Subject to the particular circumstances and applicable legal and contractual requirements, Stone Harbor may take various corrective steps, including but not limited to cancelling the trade, revising an allocation and reimbursing the client account. If the correction of the event of a breach or trade error results in a gain, the client retains the gain. If the client suffers a loss as a result of the breach or trade error that was caused by Stone Harbor, Stone Harbor will reimburse the client. Subject to specific contractual obligations, the client may receive compensation by wire, check or a reduction in the management fee. Stone Harbor generally will not reimburse de minimis losses (\$30 or less). Stone Harbor employees escalate all guideline breaches and trade errors to senior management and clients as appropriate. The Chief Compliance Officer and senior management review all guideline breaches and trade errors on at least a quarterly basis.

#### **Item 14 – Client Referrals and Other Compensation**

From time to time, Stone Harbor may have referral or solicitation arrangements with non-affiliated persons or entities to which Stone Harbor pays fees for the referral of business.

Any such arrangements are pursuant to written arrangements consistent with Rule 206(4)-3 of the Advisers Act. Stone Harbor and/or the solicitation agent will make appropriate disclosures of such arrangements to the client. Any referral or solicitation fees are paid by Stone Harbor – the client does not bear the cost of such referral or solicitation fees, nor is the advisory fee higher than the advisory fee to other clients because of such payments.



## **Item 15 – Custody**

Except as described in the paragraph below, Stone Harbor does not maintain custody of client accounts. All clients' accounts are held in custody by unaffiliated broker/dealers, banks or other institutions. It is Stone Harbor's understanding that custodians send statements directly to the account owners. Clients should carefully review these statements, and should compare these statements to any account information provided by Stone Harbor.

In the near future, Stone Harbor is expected to begin the operation of one or more privately-offered pooled investment vehicles ("private funds"). Although Stone Harbor will not have physical custody of such assets, the SEC has taken a broad view of what constitutes custody, and Stone Harbor anticipates that it will be deemed to have custody of the assets of each private fund by reason of serving as investment manager with regard to such private fund. In accordance with applicable custody requirements under the Advisers Act, investors in each private fund will receive audited financial statements annually.

## **Item 16 – Investment Discretion**

Stone Harbor usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account and by applicable law.

When selecting securities and determining amounts, Stone Harbor observes the investment policies, limitations and restrictions of the clients for which it advises.

For pooled investment vehicles, including, but not limited to, U.S. registered investment companies, non-U.S. registered investment companies and private funds, Stone Harbor's authority to trade securities may also be limited by the applicable offering documents (including, in the case of U.S. registered investment companies, the Prospectus and Statement of Additional Information).

Investment guidelines and restrictions are agreed to by Stone Harbor and the client in writing.

## **Item 17 – Voting Client Securities**

As part of its responsibilities as an investment manager, Stone Harbor may be required by the investment management agreement to vote proxies on behalf of its clients. In certain instances, a client may retain the authority to vote proxies or delegate such authority to an independent third party. In certain other instances, a client may direct how Stone Harbor will vote proxies in a specific matter. In voting proxies, Stone Harbor is responsible for making investment decisions that seek to add value to its client assets and that are in the best interest of its clients. Stone Harbor has adopted proxy voting policies, general guidelines and procedures. As an adviser that primarily invests in fixed-income securities, Stone Harbor does not frequently have to vote proxies.

In voting proxies, Stone Harbor is guided by general fiduciary principles. Stone Harbor's goal is to act prudently, solely in the best interest of the beneficial owners of the accounts it manages, and, in the case of ERISA accounts, for the exclusive purpose of providing economic benefits to such persons. Stone Harbor attempts to consider all factors of its vote that could affect the



value of the investment, and will vote proxies in the manner that it believes will be consistent with efforts to maximize such value.

It is anticipated that Stone Harbor will generally follow its proxy voting guidelines, but a portfolio manager may override the general guidelines. A portfolio manager may override the general guidelines without consultation with the Compliance & Risk Committee, unless the situations involve a conflict of interest.

In addition to proxies, Stone Harbor will need to make decisions with regard to certain corporate actions, including for not limited to tender offers, restructurings, and covenants, on behalf of our clients. In such circumstances, the portfolio manager or analyst will generally make the decision.

In voting client proxies or making decisions with regard to corporate actions, Stone Harbor may encounter various potential conflicts of interest, such as when voting proxies pertaining to existing clients, potential clients, or existing vendors. In any case involving a potential or known conflict of interest, Stone Harbor personnel will consult with the Compliance & Risk Committee in an attempt to resolve an actual or potential conflict. In addition, the Compliance & Risk Committee reviews the proxy voting guidelines and portfolio manager overrides on at least an annual basis.

Clients may obtain a copy of Stone Harbor's proxy voting policies and procedures by contacting their relationship manager or by contacting Stone Harbor at 212-548-1200. In addition, clients may obtain information about how Stone Harbor voted their proxies or discuss any particular solicitation by contacting their relationship manager.

Unless specifically agreed otherwise, Stone Harbor will not take action or render advice involving legal action on behalf of a client with respect to securities or other investments held in the client's account or issuer's thereof, which become the subject of legal notices or proceedings, including securities class actions and bankruptcies.

## **Item 18 – Financial Information**

Stone Harbor has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.