

TEMPLETON EMERGING MARKETS INCOME FUND
Form N-CSR
March 06, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number 811-07866

Templeton Emerging Markets Income Fund
(Exact name of registrant as specified in charter)

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

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

(Name and address of agent for service)

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

Date of fiscal year end: 12/31

Date of reporting period: 12/31/18

Item 1. Reports to Stockholders.

Internet Delivery of Fund Reports Unless You Request Paper Copies: Effective January 1, 2021, as permitted by the SEC, paper copies of the Fund's shareholder reports will no longer be sent by mail, unless you specifically request them from the Fund or your financial intermediary. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. If you have not signed up for electronic delivery, we would encourage you to join fellow shareholders who have. You may elect to receive shareholder reports and other communications electronically from the Fund by calling (800) 416-5585 or by contacting your financial intermediary.

You may elect to continue to receive paper copies of all your future shareholder reports free of charge by contacting your financial intermediary or, if you invest directly with a Fund, calling (800) 416-5585 to let the Fund know of your request. Your election to receive reports in paper will apply to all funds held in your account.

Franklin Templeton

Successful investing begins with ambition. And achievement only comes when you reach for it. That's why we continually strive to deliver better outcomes for investors. No matter what your goals are, our deep, global investment expertise allows us to offer solutions that can help.

During our more than 70 years of experience, we've managed through all kinds of markets—up, down and those in between. We're always preparing for what may come next. It's because of this, combined with our strength as one of the world's largest asset managers that we've earned the trust of millions of investors around the world.

Contents

Annual Report

<u>Templeton Emerging Markets Income Fund</u>	2
<u>Performance Summary</u>	6
<u>Important Notice to Shareholders</u>	8
<u>Financial Highlights and Statement of Investments</u>	9
<u>Financial Statements</u>	17
<u>Notes to Financial Statements</u>	20
<u>Report of Independent Registered Public Accounting Firm</u>	32
<u>Tax Information</u>	33
<u>Annual Meeting of Shareholders</u>	34
<u>Dividend Reinvestment and Cash Purchase Plan</u>	36
<u>Board Members and Officers</u>	38
<u>Shareholder Information</u>	43

Visit franklintempleton.com/investor/

products/products/closed-end-funds for fund updates, to access your account, or to find helpful financial planning tools.

Not FDIC Insured | May Lose Value | No Bank Guarantee

franklintempleton.com

Not part of the
annual report 1

Annual Report

Templeton Emerging Markets Income Fund

Dear Shareholder:

This annual report for Templeton Emerging Markets Income Fund covers the fiscal year ended December 31, 2018.

Your Fund's Goal and Main Investments

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

Performance Overview

For the 12 months under review, the Fund had cumulative total returns of -6.26% based on market price and -7.48% based on net asset value. In comparison, U.S. dollar-denominated emerging market bonds, as measured by the J.P. Morgan (JPM) Emerging Markets Bond Index (EMBI) Global, had a -4.61% cumulative total return in U.S. dollar terms for the same period.¹ You can find the Fund's long-term performance data in the Performance Summary on page 6.

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

Economic and Market Overview

The year began with sharply rising yields in the U.S. and Europe as reflation sentiments returned to markets. Deregulation efforts and tax cuts in the U.S. were expected to add stimulus to an already strong U.S. economy. The 10-year U.S. Treasury (UST) yield rose 0.45% during the first two months of 2018, finishing February at 2.86%. In Europe, the 10-year German Bund yield rose 0.27% during the first month of the year, reaching its peak yield for the period at 0.77% on February 2, its highest level since 2015. Markets appeared to initially anticipate upcoming rate adjustments from the

Portfolio Composition*

Based on Total Net Assets as of 12/31/18

*Figures represent the net Fund exposure and include certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of any derivatives or other factors.

**Includes foreign treasury bills, foreign strips, money market funds and net other assets less liabilities (including derivatives).

European Central Bank (ECB), but those expectations would largely disappear by the summer.

In February, Jerome Powell took over as U.S. Federal Reserve (Fed) Chair, replacing Janet Yellen. Powell indicated his intentions to continue the glide path of rate hikes and balance sheet unwinding. However, by March, the rising yield trends in the U.S. and Europe stalled and moderately reversed. U.S. protectionist policies in the form of steel and aluminum tariffs, as well as sector-specific tariffs on China, appeared to amplify risk aversion across global financial markets. Credit spreads widened across investment-grade and high-yield credit tiers in the U.S. and Europe during the month, ultimately widening even further over the rest of the year. In April, reflation sentiments briefly resurfaced, driving the 10-year UST yield above 3.00% for the first time in more than four years. However, risk aversion returned to global bond markets in the second half of May, as political turmoil in Italy raised concerns over Italian debt sustainability and the viability of the euro. Yields in Italy, Spain and much of peripheral Europe rose sharply, while yields in Germany, France and the U.S. declined

1. Source: Morningstar.

The index is unmanaged and includes reinvestment of any income or distributions. It does not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

See www.franklintempletondatasources.com for additional data provider information.

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

TEMPLETON EMERGING MARKETS INCOME FUND

on flights to quality. Several Latin American countries concurrently saw rising yields and sharp depreciations of their exchange rates on regional volatility.

In mid-June, ECB President Mario Draghi announced the net asset purchase program would be reduced to 15 billion euros per month for October, November and December, and would conclude at the end of 2018. Draghi also indicated rates would likely remain unchanged until at least the summer of 2019, quelling any remaining expectations for a 2018 rate hike. In the U.S., yields briefly rose in July as economic activity continued to strengthen. Annualized second-quarter U.S. gross domestic product came in at 4.2%, its highest level since 2014.

Geographic Composition*

Based on Total Net Assets as of 12/31/18

*Figures represent the net Fund exposure and include certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of any derivatives or other factors.

However, a wave of broad-based risk aversion across emerging markets arrived in late August, driving exchange rates lower against the U.S. dollar. Several perceived safe-haven assets rallied, including USTs. We viewed much of the late summer selloffs as fear-driven overreactions that often exceeded the fundamental risks in individual countries. As an asset category, emerging markets showed the highest level of undervaluation across the global fixed income markets, in our assessment, and we expected select countries with healthier or improving underlying fundamentals to rebound from the heightened volatility.

By mid-September, risk aversion across emerging markets began to diminish, as several security valuations incrementally stabilized and improved. UST yields rose sharply during the month, on expectations the Fed would hike rates at its September 26 meeting. Those trends continued through October, with the 10-year UST reaching its highest yield of the year on November 8, at 3.24%. However, market volatility escalated in December as global growth uncertainties and trade

policy concerns led to rallies in perceived safe-haven assets. The 10-year UST yield dropped sharply to finish the year at 2.69%, despite the Fed's fourth rate hike of the year on December 19.

On the whole, duration exposures in the U.S. and in several parts of the world faced headwinds from rising rates during much of the period, before those trends sharply reversed in December. Select local-currency bond markets fared better than others, as valuations strengthened in places like Brazil but weakened in places like Indonesia. On the currency front, the U.S. dollar started the period weaker before significantly strengthening against global currencies over the remainder of the year. On the whole, avoiding UST duration proved important to performance during much of the period, as did long exposure to the U.S. dollar and select positioning in emerging markets.

Investment Strategy

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

Manager's Discussion

During the reporting period, the strategy was positioned for rising rates in the U.S. by maintaining low portfolio duration and using interest-rate swaps to gain negative duration exposure to U.S. Treasuries. The strategy also continued to seek duration exposures in select emerging markets that offered positive real yields without taking undue interest-rate risk, favoring countries that have solid underlying fundamentals and prudent fiscal and monetary policies. Several emerging markets continued to offer significantly higher yields than those available in the developed markets. The strategy also held long currency exposures in a number of emerging markets and net-negative exposures to the Japanese yen, euro and Australian dollar, as directional views on the currencies and as hedges against a broadly strengthening U.S. dollar. During the period, we used currency forward contracts to actively manage currencies. We also used interest-rate swaps to tactically manage duration exposures.

TEMPLETON EMERGING MARKETS INCOME FUND

Top 10 Countries

12/31/18

	% of Total Net Assets
Brazil	8.4%
Kenya	8.3%
Argentina	7.2%
Ukraine	6.9%
Indonesia	6.1%
Senegal	5.0%
Colombia	3.2%
Dominican Republic	2.6%
United Republic of Tanzania	2.4%
Costa Rica	2.4%

What is duration?

Duration is a measure of a bond's price sensitivity to interest-rate changes. In general, a portfolio of securities with a lower duration can be expected to be less sensitive to interest-rate changes than a portfolio with a higher duration.

What is a currency forward contract?

A currency forward contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency in exchange for another currency at a specific exchange rate on a future date. Currency forward contracts are privately traded in the interbank market, not on a centralized exchange.

What is an interest-rate swap?

An interest-rate swap is an agreement between two parties to exchange interest-rate payment obligations, generally one based on an interest rate fixed to maturity and the other based on an interest rate that changes in accordance with changes in a designated benchmark (for example, LIBOR, prime, commercial paper or other benchmarks).

The Fund's negative absolute performance during the period was primarily due to currency positions, followed by overall credit exposures. Interest-rate strategies contributed to absolute results. Among currencies, positions in Latin America detracted from absolute return (the Argentine peso and Brazilian real detracted, while the Mexican peso contributed). The Fund's net-negative position in the euro, achieved through the use of currency forward contracts, contributed to absolute results, while its net-negative position in the Japanese yen, also through currency forward contracts, had a largely neutral effect. Credit exposures in Africa detracted from absolute performance. The Fund maintained low overall portfolio duration, while holding duration exposures in select emerging markets. Select duration exposures in Latin America (Brazil) contributed to absolute

performance, as did negative duration exposure to U.S. Treasuries.

Currency Composition*

12/31/18

	% of Total Net Assets
Americas	113.9%
U.S.Dollar	83.6%
Mexican Peso	14.1%
Brazilian Real	8.4%
Argentine Peso	4.6%
Colombian Peso	3.2%
Middle East & Africa	5.6%
Egyptian Pound	3.3%
Ghanaian Cedi	2.3%
South African Rand	0.0%**
Asia Pacific	-11.6%
Indonesian Rupiah	6.1%
Indian Rupee	1.2%
Australian Dollar	-3.5%
Japanese Yen	-15.4%
Europe	-7.9%
Euro	-7.9%

*Figures represent the net Fund exposure and include certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of any derivatives or other factors.

**Rounds to less than 0.1%.

TEMPLETON EMERGING MARKETS INCOME FUND

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

Sincerely,

Michael Hasenstab Ph.D.

Lead Portfolio Manager

Calvin Ho

Portfolio Manager

The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2018, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

TEMPLETON EMERGING MARKETS INCOME FUND

Performance Summary as of December 31, 2018

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

Performance as of 12/31/18¹

	Cumulative Total Return²		Average Annual Total Return²	
	Based on NAV³	Based on market price⁴	Based on NAV³	Based on market price⁴
1-Year	-7.48%	-6.26%	-7.48%	-6.26%
5-Year	+7.23%	+3.59%	+1.41%	+0.71%
10-Year	+125.63%	+146.94%	+8.48%	+9.46%

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

Distributions (1/1/18 - 12/31/18)

Net Investment Income	Tax Return of Capital	Total
\$0.6548	\$0.2367	\$0.8915

TEMPLETON EMERGING MARKETS INCOME FUND

PERFORMANCE SUMMARY

All investments involve risks, including possible loss of principal. Changes in interest rates will affect the value of the Fund's portfolio and its share price and yield. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the Fund adjust to a rise in interest rates, the Fund's share price may decline. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments of countries where the Fund invests. The Fund's investments in emerging market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to these markets' smaller size and lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation. Sovereign debt securities are subject to various risks in addition to those relating to debt securities and foreign securities generally, including, but not limited to, the risk that a government entity may be unwilling or unable to pay interest and repay principal on its sovereign debt, or otherwise meet its obligations when due. The markets for particular securities or types of securities are or may become relatively illiquid. Reduced liquidity will have an adverse impact on the security's value and on the Fund's ability to sell such securities when necessary to meet the Fund's liquidity needs or in response to a specific market event. Derivatives, including currency management strategies, involve costs and can create economic leverage in the portfolio that may result in significant volatility and cause the Fund to participate in losses (as well as enable gains) on an amount that exceeds the Fund's initial investment. The Fund may not achieve the anticipated benefits and may realize losses when a counterparty fails to perform as promised. As a nondiversified investment company, the Fund may invest in a relatively small number of issuers and, as a result, be subject to a greater risk of loss with respect to its portfolio securities. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results.

The Fund may invest in China Interbank bonds traded on the China Interbank Bond Market (CIBM) through the China-Hong Kong Bond Connect program (Bond Connect). In China, the Hong Kong Monetary Authority Central Money Markets Unit holds Bond Connect securities on behalf of ultimate investors (such as the Fund) in accounts maintained with a China-based custodian (either the China Central Depository & Clearing Co. or the Shanghai Clearing House). This recordkeeping system subjects the Fund to various risks, including the risk that the Fund may have a limited ability to enforce rights as a bondholder and the risks of settlement delays and counterparty default of the Hong Kong sub-custodian. In addition, enforcing the ownership rights of a beneficial holder of Bond Connect securities is untested and courts in China have limited experience in applying the concept of beneficial ownership. Bond Connect uses the trading infrastructure of both Hong Kong and China and is not available on trading holidays in Hong Kong. As a result, prices of securities purchased through Bond Connect may fluctuate at times when a Fund is unable to add to or exit its position. Securities offered through Bond Connect may lose their eligibility for trading through the program at any time. If Bond Connect securities lose their eligibility for trading through the program, they may be sold but can no longer be purchased through Bond Connect.

Bond Connect is subject to regulation by both Hong Kong and China and there can be no assurance that further regulations will not affect the availability of securities in the program, the frequency of redemptions or other limitations. Bond Connect trades are settled in Chinese currency, the renminbi (RMB). It cannot be

guaranteed that investors will have timely access to a reliable supply of RMB in Hong Kong. Bond Connect is relatively new and its effects on the Chinese interbank bond market are uncertain. In addition, the trading, settlement and IT systems required for non-Chinese investors in Bond Connect are relatively new. In the event of systems malfunctions, trading via Bond Connect could be disrupted. In addition, the Bond Connect program may be subject to further interpretation and guidance. There can be no assurance as to the program's continued existence or whether future developments regarding the program may restrict or adversely affect the Fund's investments or returns. Finally, uncertainties in China tax rules governing taxation of income and gains from investments via Bond Connect could result in unexpected tax liabilities for a Fund.

The application and interpretation of the laws and regulations of Hong Kong and China, and the rules, policies or guidelines published or applied by relevant regulators and exchanges in respect of the Bond Connect program, are uncertain, and may have a detrimental effect on the Fund's investments and returns.

1. The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 2/29/20. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.
2. Total return calculations represent the cumulative and average annual changes in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
3. Assumes reinvestment of distributions based on net asset value.
4. Assumes reinvestment of distributions based on the dividend reinvestment and cash purchase plan.

TEMPLETON EMERGING MARKETS INCOME FUND

Important Notice to Shareholders

Share Repurchase Program

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

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

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

Amended Distribution Frequency

The Fund's Board of Trustees approved a change to its distribution frequency from a quarterly variable distribution to a monthly variable distribution, effective June 30, 2018.

Portfolio Management Addition

Effective December 31, 2018, Calvin Ho, Ph.D., joined Michael Hasenstab, Ph.D., as a portfolio manager of Templeton Emerging Markets Income Fund, replacing Sonal Desai, Ph.D. Dr. Ho is a senior vice president and director of research for Templeton Global Macro. He is responsible for shaping the team's research agenda of in-depth global macroeconomic analysis covering thematic topics, regional and country analysis, and interest rate, currency and sovereign credit market outlooks. This includes facilitating broader research efforts leveraging Franklin Templeton's local fixed income investment professionals across global markets. Dr. Ho joined Franklin

Templeton Investments in 2005 after obtaining his Ph.D. at UC Berkeley. Dr. Ho holds both B.A. and Ph.D. in economics from the University of California, Berkeley. Dr. Hasenstab, who has been a member of the Fund's management team since 2002, will continue to serve as the lead portfolio manager of the Fund.

 TEMPLETON EMERGING MARKETS INCOME FUND
Financial Highlights

	Year Ended December 31,			Year Ended August 31,		
	2018	2017	2016 ^a	2016	2015	2014
Per share operating performance						
(for a share outstanding throughout the year)						
Net asset value, beginning of year	\$12.75	\$12.17	\$12.11	\$12.00	\$14.39	\$14.58
Income from investment operations:						
Net investment income ^b	0.83	0.85	0.25	0.77	0.93	1.02
Net realized and unrealized gains (losses)	(1.76)	0.35	0.21	0.16	(2.18)	0.18
Total from investment operations	(0.93)	1.20	0.46	0.93	(1.25)	1.20
Less distributions from:						
Net investment income and net foreign currency gains	(0.65)	(0.62)	(0.13)	(0.40)	(0.79)	(1.19)
Net realized gains			(0.03)	(0.02)	(0.35)	(0.20)
Tax return of capital	(0.24)		(0.24)	(0.40)		
Total distributions	(0.89)	(0.62)	(0.40)	(0.82)	(1.14)	(1.39)
Net asset value, end of year	\$10.93	\$12.75	\$12.17	\$12.11	\$12.00	\$14.39
Market value, end of year ^c	\$ 9.62	\$11.17	\$10.91	\$11.03	\$ 9.97	\$13.41
Total return (based on market value per share) ^d	(6.26)%	8.11%	2.57%	19.78%	(17.94)%	6.83%

Ratios to average net assets^e

Expenses before waiver and payments by affiliates	1.17%	1.09%	1.09%	1.12%	1.10%	1.09%
Expenses net of waiver and payments by affiliates	1.14% ^f	1.05% ^f	1.04% ^f	1.10%	1.09%	1.08%
Net investment income	7.00%	6.60%	6.22%	6.56%	7.19%	7.03%

Supplemental data

Net assets, end of year (000 s)	\$524,451	\$611,845	\$584,135	\$581,158	\$576,069	\$690,850
Portfolio turnover rate	13.69%	13.46%	11.74%	27.98%	23.57%	28.67%

^aFor the period September 1, 2016 to December 31, 2016.

^bBased on average daily shares outstanding.

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

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

^eRatios are annualized for periods less than one year.

^fBenefit of expense reduction rounds to less than 0.01%.

TEMPLETON EMERGING MARKETS INCOME FUND