

# THE HERZFELD CARIBBEAN BASIN FUND, INC.

*ANNUAL REPORT*  
*June 30, 2019*

Beginning with the distribution of the Fund's December 31, 2020 semi-annual report in February 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the Fund's stockholder reports like this one will no longer be sent by mail, unless you specifically request paper copies of the reports. Instead, the reports will be made available on the Fund's website, [www.herzfeld.com/cuba](http://www.herzfeld.com/cuba), 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 stockholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive stockholder reports and other communications from the Fund electronically by contacting your financial intermediary (such as a broker-dealer or bank) or, if you are a direct investor, by following the instructions included with paper Fund documents that have been mailed to you.

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**The Herzfeld Caribbean Basin Fund, Inc.**

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**Investment Advisor**

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a division of Thomas J. Herzfeld Advisors, Inc.  
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Tait, Weller & Baker LLP  
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*The Herzfeld Caribbean Basin Fund, Inc.'s investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Advisor's view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which include, among others, Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia, the United States and Venezuela ("Caribbean Basin Countries"). The Fund invests at least 80% of its total assets in equity and equity-linked securities of issuers, including U.S.-based companies which engage in substantial trade with, and derive substantial revenue from, operations in Caribbean Basin Countries.*

Listed NASDAQ Capital Market  
Symbol: CUBA

# *Letter to Stockholders (Unaudited)*

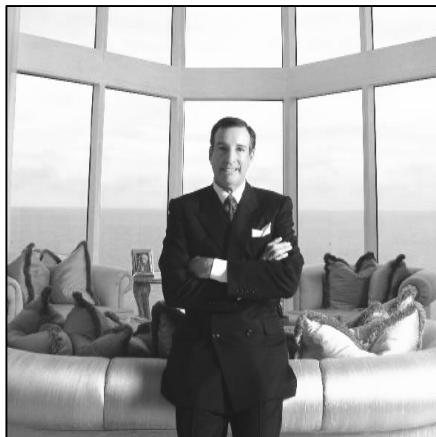
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August 15, 2019

Dear Fellow Stockholders,

We are pleased to present our Annual Report for the twelve-month period ended June 30, 2019. On that date, the net asset value of The Herzfeld Caribbean Basin Fund, Inc. (CUBA) was \$7.59 per share. For the fiscal year ended June 30, 2019, the total investment return, adjusted for dividends, was 0.61% based on net asset value per share and 2.16% based on market value per share.<sup>1</sup>

The Fund seeks long-term capital appreciation through investment in companies that we believe are poised to benefit from economic, political, structural, and technological developments in the Caribbean Basin. Part of the investment strategy focuses on companies in the region that we believe would benefit from the resumption of U.S. trade with Cuba. Since it is impossible to predict when the U.S. embargo will be lifted, we have concentrated on investments that we believe can do well even if there is no political or economic change with respect to Cuba.



*Thomas J. Herzfeld*  
*Chairman and Portfolio Manager*

## **Caribbean Update**

Puerto Rico continues to recover economically as can be seen by record tax revenue reported by the U.S. territory. The economic growth is in spite of political scandals and accusations of corruption involving senior officials on the island, while many of those same officials are fighting with the federal government to procure more disaster aid and trying to negotiate debt restructuring with bondholders. In July of 2019, mass protests across the island called for the resignation of Governor Ricardo Rosselló, who resigned on August 2<sup>nd</sup> and named Pedro Pierluisi as his successor. However, the Puerto Rico Supreme Court unanimously ruled that part of the law used to name Mr. Pierluisi as successor was unconstitutional. He was then replaced by Wanda Vasquez, who was sworn in on August 7th. We are closely monitoring the ongoing political and fiscal events that could derail the economic recovery that has occurred on the island over the last year.

The Dominican Republic tourism board has been dealing with a public relations disaster as a spate of tourist deaths due to various causes raised concerns about the safety of tourists visiting the island. News sources reported that a few of the deaths may have been caused by tainted alcohol at luxury hotels. As the third largest economy in the Caribbean behind Cuba and Puerto

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<sup>1</sup> The calculation of the total investment return assumes reinvestment of dividends and distribution at prices obtained by the Fund's Dividend Reinvestment Plan.

## *Letter to Stockholders (Unaudited) (Continued)*

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*Erik M. Herzfeld  
President and  
Portfolio Manager*

Rico, any slowdown to its fastest growing sector, tourism, could weigh on the country's nearly 6% annualized GDP growth. However, any reduction in tourist arrivals to the Dominican Republic should be offset by increases in tourism in neighboring Caribbean islands as tourists substitute one white sand beach with turquoise waters for another.

There were few if any positive developments since our last report regarding Cuba's relationship with the U.S. as the Trump administration moved to ban U.S. travelers from visiting Cuba on educational and cultural exchanges. This administrative action curtailed the burgeoning cruise industry to the island. Also, the administration's apparent attempts to influence removal of the Maduro regime in Venezuela have given the Cuban government a lifeline. The U.S. increased sanctions on the Venezuelan oil industry which contributed to a major surge in oil exports to Cuba from Venezuela. At this point, political attempts at breaking up the Cuban-Venezuelan alliance appear to have only strengthened their reliance on one another.

### **Plan to Address Discount to Net Asset Value**

The Board of Directors recently authorized the implementation of a three-year plan to address the Fund's discount to net asset value ("NAV") per share (the "Plan"). Due to the current approach to U.S.-Cuba relations adopted by the Trump administration as well as the administration's confrontational posture with regard to Venezuela, the Advisor recommended to the Board that it is in the best interest of all stockholders to implement measures to directly address the Fund's discount to NAV. These measures include a managed distribution plan (see Notice to Stockholders below), a contingent self-tender policy and a voluntary management fee reduction. The Plan is to be instituted over a three-year period (beginning July 1, 2019 and ending June 30, 2022) and is subject to various conditions. Based on our more than 35-year history of analyzing and investing in closed-end funds, we believe that the discount narrowing policies approved by the Board are the most effective way to address the discount while allowing long term stockholders, many of whom have invested with us since the Fund began trading in 1994, the ability to continue to invest in the only closed end fund with a Caribbean-focused investment strategy listed in the United States.

### **Portfolio**

The Fund had a volatile fiscal year that was a tale of two halves – as was the case for most of the securities markets. The first half of the fiscal year saw declines in market price and widening of the discount to net asset value, while the second half saw an increase in market price and a narrowing of the discount. We attribute the rally in 2019 to a) a more dovish Fed as economic data has been relatively weak compared to 2018, and b) the end of tax-loss selling in the United States as Q4 2018 saw investors sell positions to capture losses used to offset gains in other markets. This "tax loss harvesting" caused extreme selling at the end of 2018 throughout the market that created opportunity for the Fund for value purchasing in Q4 2018 and Q1 2019, setting the stage for the gains seen in the second half of our fiscal year.

## *Letter to Stockholders (Unaudited) (Continued)*

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Our allocation to Puerto Rico continues to be a bright spot as returns ranged from 22.51% to 50.75% over the Fund's fiscal year. Our holdings in Mexico most affected by trade with the United States continued to struggle as NAFTA's replacement still has not been voted on by the U.S. Congress. However, an immigration agreement between Mexico and the U.S. signals the two countries can work together and that passage of NAFTA's replacement could remove the cloud of uncertainty that has plagued companies reliant on cross-border trade.



*Ryan M. Paylor*  
*Portfolio Manager*

The biggest positive contributor to the portfolio was First BanCorp Puerto Rico (FBP), the Fund's fifth largest position, which gained 45.6% over the Fund's fiscal year. The gain can be attributed to the continued rebound in the Puerto Rican economy which saw FBP increase revenue 10.3% and net income 31.6% over the prior year. FBP has been able to generate growth while fortifying its balance sheet by increasing its tier 1 capital ratio. FBP received upgrades from the three big credit rating agencies and also reinstituted a dividend after discontinuing it during the financial crisis in 2009, which were all positive developments for the bank and its investors. Additional Puerto Rican holdings, Popular, Inc. (BPOP) and Evertec, Inc. (EVTC), had solid performance as well gaining 22.51% and 50.75% respectively, over the fiscal period.

The biggest performance detractor was Cemex SAB de CV (CX) which dropped 34.58% over the Fund's fiscal year. CX has struggled due to numerous variables outside of its control including a weakening global economy, delays in Mexico's national infrastructure development plan, and the Trump administration's confrontational trade negotiations. Negative factors within the company's control include its considerable debt. CX continues to have the highest debt/equity ratio of its peers leading to a low comparative price to earnings ratio. One major positive for CX is the consensus that global cement demand is expected to continue to grow in 2019. Over a third of its revenue is derived from Latin America which is expected to see a sizable uptick in demand after declining the last four years.

We were rewarded by our decision to overweight cruise lines Royal Caribbean Cruises Ltd. (RCL) and Norwegian Cruise Line Holdings (NCLH) versus Carnival Corporation (CCL). RCL and NCLH have a higher concentration of revenues from the Caribbean which we felt would be a major beneficiary of strong consumer spending in the U.S. CCL has a more diversified revenue stream by geography making it more exposed to trade wars in the eastern hemisphere. RCL and NCLH gained 19.82% and 13.50% respectively over the fiscal year while CCL dropped 15.91%.

There was an even larger bifurcation between our two airline holdings as Copa Holdings (CPA) gained 6.90% while Avianca Holdings SA (AVH) declined 36.51%. CPA has benefitted directly from the gross mismanagement of AVH's subsidiary, Avianca Brasil, and the financial distress of AVH. Less competition from its main regional rival led to better pricing power and improving load factors for CPA. The collapse of Avianca Brasil set off a chain of events that saw United Airlines gain control of AVH and oust AVH's chairman, German Efromovich. When United announced that Efromovich was to be removed and a new management team put

## ***Letter to Stockholders (Unaudited) (Continued)***

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in place with the help of United, we added to our position due to the potential positive impacts of these changes.

### **Outlook**

Our outlook for fiscal year 2020 remains positive but guarded after the gains experienced in the second half of fiscal year 2019. Global growth has slowed and there is no end in sight to the trade war with China. However, a potential agreement on a new NAFTA should reenergize the Mexican equity market which has struggled under the Trump presidency. Additionally, central banks appear synchronized in their desire to boost global growth, which we believe will positively impact Caribbean economies. Finally, industry expectations are that GDP growth in Brazil and Argentina, Latin America's two largest economies, will accelerate into 2020. A return to growth in these countries should also provide a strong tailwind for our foreign holdings.

The failure of the removal of the Maduro regime in Venezuela will most likely allow the status quo to continue in Cuba. We do not expect any overtures from Cuba or the U.S. to result in a return to the negotiating table as the relationship is now at its worst point since Cuba shot down two "Brothers to the Rescue" planes in 1996 and the U.S. Congress passed The Helms-Burton Act strengthening the embargo. We believe the Trump administration will continue its hardline stance with Cuba into the general election.

### **Notice to Stockholders**

#### **Adoption of Managed Distribution Plan**

The Board of Directors of the Fund has adopted a managed distribution plan that provides for distributions to common stockholders to be paid in quarterly installments at an annual rate, set once a year, that is a percentage of the Fund's NAV at its most recent fiscal year-end. The Board has set the annual rate for the current fiscal year ending June 30, 2020 at the annual rate of 15% of the Fund's NAV as of June 30, 2019. Under the managed distribution plan, quarterly distributions may be sourced from income, paid-in capital, and/or capital gains, if any. To the extent that sufficient investment income is not available on a quarterly basis, the Fund may distribute paid-in capital and/or capital gains, if any, in order to maintain its managed distribution level. You should not draw any conclusions about the Fund's investment performance from the amount of the Fund's distributions or from the terms of the managed distribution plan. Stockholders may elect to reinvest distributions received pursuant to the managed distribution plan in the Fund under the existing dividend reinvestment plan, which is described later in this report.

## Letter to Stockholders (Unaudited) (Continued)

### Largest Allocations

The following tables present our largest investment and geographic allocations as of June 30, 2019.

<i>Geographic % of Net Assets Allocation</i>		<i>Largest Portfolio Positions % of Net Assets</i>	
<i>USA</i>	<i>53.96%</i>	<i>MasTec, Inc.</i>	<i>12.43%</i>
<i>Puerto Rico</i>	<i>14.38%</i>	<i>Royal Caribbean Cruises Ltd.</i>	<i>8.13%</i>
<i>Mexico</i>	<i>13.52%</i>	<i>Norwegian Cruise Line Holdings Ltd.</i>	<i>6.56%</i>
<i>Panama</i>	<i>10.43%</i>	<i>Popular Inc.</i>	<i>6.44%</i>
<i>Cayman</i>	<i>4.08%</i>	<i>First BanCorp. (Puerto Rico)</i>	<i>6.27%</i>
<i>Colombia</i>	<i>2.00%</i>	<i>Copa Holdings, S.A.</i>	<i>5.09%</i>
<i>Cuba</i>	<i>0.00%</i>	<i>Lennar Corporation</i>	<i>4.95%</i>
<i>Cash and</i>		<i>Consolidated Water Company Ltd.</i>	<i>3.73%</i>
<i>Other Countries</i>	<i>1.63%</i>	<i>Marriott Vacations Worldwide Corp.</i>	<i>3.47%</i>
		<i>Fomento Económico Mexicano, S.A.B.</i>	<i>3.04%</i>
		<i>de C.V. ADR</i>	

Weekly net asset values and press releases by the Fund are available on the Fund's website at [www.herzfeld.com/cuba](http://www.herzfeld.com/cuba).

We would like to thank the members of the Board of Directors for their hard work and guidance and also thank our fellow stockholders for their continued support and suggestions.

Sincerely,



Thomas J. Herzfeld  
Chairman of the Board  
and Portfolio Manager



Erik M. Herzfeld  
President and  
Portfolio Manager



Ryan M. Paylor  
Portfolio Manager

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*The above commentary is for informational purposes only and does not represent an offer, recommendation or solicitation to buy, hold or sell any security. The specific securities identified and described do not represent all of the securities purchased or sold and you should not assume that investments in the securities identified and discussed will be profitable. Portfolio composition is subject to change.*

## *Schedule of Investments as of June 30, 2019*

Shares or Principal Amount	Description	Fair Value
Common stocks – 98.37% of net assets		
Airlines - 7.84%		
300,869	Avianca Holdings, S.A. ADR	\$ 1,167,372
24,273	Copa Holdings, S.A.	2,368,317
13,474	ERA Group, Inc.*	112,373
Banking and finance - 18.73%		
18,280	Bancolombia, S.A.	933,011
63,166	Banco Latinoamericano de Comercio Exterior, S.A.	1,315,748
16,956	Evertec, Inc.	554,461
264,477	First BanCorp. (Puerto Rico)*	2,919,826
55,230	Popular, Inc.	2,995,675
3,844	W Holding Company, Inc.* <sup>1</sup>	--
Communications - 2.71%		
44,690	América Móvil, S.A.B. de C.V. ADR	650,686
209,144	América Móvil, S.A.B. de C.V. Series L	152,300
479,175	Fuego Enterprises, Inc.*	104,939
208,234	Grupo Radio Centro S.A.B. de C.V.*	97,551
28,400	Grupo Televisa, S.A.B. ADR	239,696
32,272	Spanish Broadcasting System, Inc.*	5,554
14,017	Telesites S.A.B. Series B-1*	8,653
Conglomerates and holding companies - 0.00%		
250,000	Admiralty Holding Company* <sup>1</sup>	--
Construction and related – 20.38%		
310,645	Cemex, S.A.B. de C.V. ADR	1,317,135
20	Ceramica Carabobo Class A ADR* <sup>1</sup>	--
3,000	Martin Marietta Materials	690,330
112,297	MasTec, Inc.*	5,786,664
60,170	PGT Innovations, Inc.	1,006,042
5,000	Vulcan Materials	686,550

*See accompanying notes to the financial statements.*



## ***Schedule of Investments as of June 30, 2019 (Continued)***

<u>Shares or Principal Amount</u>	<u>Description</u>	<u>Fair Value</u>
Consumer products and related manufacturing - 2.11%		
6,000	Watsco, Inc.	\$ 981,180
Food, beverages and tobacco - 8.35%		
740,000	Becle, S.A.B. de C.V.	1,144,764
18,900	Fomento Económico Mexicano, S.A.B. de C.V. Series UBD	182,688
14,610	Fomento Económico Mexicano, S.A.B. de C.V. ADR	1,413,517
42,500	Fresh Del Monte Produce, Inc.	1,145,375
Housing - 4.95%		
47,500	Lennar Corporation	2,301,850
Investment companies - 0.00%		
70,000	Waterloo Investment Holdings Ltd.* <sup>1</sup>	--
Leisure - 20.81%		
26,518	Carnival Corporation	1,234,413
16,745	Marriott Vacations Worldwide Corporation	1,614,218
56,944	Norwegian Cruise Line Holdings Ltd.*	3,053,907
31,229	Royal Caribbean Cruises Ltd.	3,785,267
Mining - 0.02%		
3,872	Grupo México, S.A.B. de C.V. Series B	10,303
Retail - 1.41%		
1,270	Grupo Elektra, S.A.B. de C.V. Series CPO	83,214
210,222	Wal-Mart de México, S.A.B. de C.V. Series V	573,273
Service - 2.30%		
6,600	Grupo Aeroportuario ADR	1,069,926
Trucking and marine freight - 1.55%		
174	Seaboard Corporation	719,793

*See accompanying notes to the financial statements.*

## ***Schedule of Investments as of June 30, 2019 (Continued)***

Shares or Principal Amount	Description	Fair Value
Utilities - 6.72%		
12,000	Caribbean Utilities Ltd. Class A	\$ 163,920
121,638	Consolidated Water Company Ltd.	1,734,558
700	Cuban Electric Company (Note 3)* <sup>1</sup>	--
6,000	NextEra Energy, Inc.	1,229,160
Other - 0.49%		
25,000	Geltech Solutions, Inc.*	4,150
55,921	Margo Caribe, Inc.*	223,684
79	Siderurgica Venezolana Sivensa, S.A. Series B* <sup>1</sup>	--
<b>Total common stocks (cost \$39,496,311)</b>		<b><u>45,782,043</u></b>
Bonds - 0% of net assets		
\$165,000	Republic of Cuba - 4.5%, 1977 - in default (Note 3)* <sup>1</sup>	--
<b>Total bonds (cost \$63,038)</b>		<b><u>--</u></b>
<b>Total investments (cost \$39,559,349) - 98.37% of net assets</b>		<b><u>45,782,043</u></b>
<b>Other assets less liabilities - 1.63% of net assets</b>		<b><u>759,500</u></b>
<b>Net assets - 100%</b>		<b><u>\$46,541,543</u></b>

<sup>1</sup>Securities have been fair valued in good faith using fair value methodology approved by the Board of Directors. Fair valued securities comprised 0.00% of net assets.

\*Non-income producing

*See accompanying notes to the financial statements.*

## *Schedule of Investments as of June 30, 2019 (Continued)*

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The investments are concentrated in the following geographic regions (as percentages of net assets)(unaudited):

United States of America	53.96%
Puerto Rico	14.38%
Mexico	13.52%
Panama	10.43%
Other, individually under 5%**	<u>7.71%</u>
	100.00%

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\*\*Amount includes other assets less liabilities of 1.63%

*See accompanying notes to the financial statements.*

# *Statement of Assets and Liabilities as of June 30, 2019*

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## **ASSETS**

Investments in securities, at fair value (cost \$39,559,349) (Notes 2 and 3)	\$ 45,782,043
Cash	562,900
Receivable for investments sold	257,112
Dividends receivable	53,649
Deferred offering costs (shelf) (Note 7)	22,558
Foreign currencies, at value (cost \$172)	171
Other assets	<u>18,867</u>

**TOTAL ASSETS** 46,697,300

## **LIABILITIES**

Accrued investment advisor fee (Note 4)	\$ 55,210
Accrued professional fees	49,000
Accrued insurance expense	33,000
Accrued directors fees	10,000
Accrued custody fee	7,000
Accrued other expenses	<u>1,547</u>

**TOTAL LIABILITIES** 155,757

**NET ASSETS** (Equivalent to \$7.59 per share  
based on 6,133,659 shares outstanding) \$46,541,543

### **Net assets consist of the following:**

Common stock, \$.001 par value; 100,000,000 shares authorized; 6,133,659 shares issued and outstanding	\$ 6,134
Additional paid-in capital	40,027,910
Total distributable earnings	<u>6,507,499</u>

**NET ASSETS** \$46,541,543

*See accompanying notes to the financial statements.*

# ***Statement of Operations Year Ended June 30, 2019***

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## **INVESTMENT INCOME AND EXPENSES**

Dividends (net of foreign withholding tax of \$16,248)		<u>\$ 800,409</u>
Investment advisor fees (Note 4)	\$ 668,416	
Professional fees	203,363	
Director fees	144,800	
Custodian fees	84,000	
Compliance and operational support services fees (Note 4)	68,123	
Insurance	39,000	
Listing fees	30,000	
Transfer agent fees	24,000	
Printing and postage	19,831	
Proxy services	5,253	
Other	<u>199</u>	
Total investment expenses		<u>1,286,985</u>

**NET INVESTMENT LOSS** (486,576)

## **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY**

Net realized gain on investments and foreign currency	1,080,547
Change in unrealized appreciation/depreciation on investments and foreign currency	<u>(1,229,196)</u>

**NET LOSS ON INVESTMENTS** (148,649)

## **NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS**

(\$635,225)

*See accompanying notes to the financial statements.*

# *Statements of Changes in Net Assets*

*Years Ended June 30, 2019 and 2018*

	<b>Year Ended June 30, 2019</b>	<b>Year Ended June 30, 2018</b>
<b>INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>		
Net investment loss	(\$486,576)	(\$ 660,929)
Net realized gain on investments and foreign currency	1,080,547	3,291,828
Change in unrealized appreciation/depreciation on investments and foreign currency	<u>(1,229,196)</u>	<u>(3,906,873)</u>
<b>NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	(635,225)	(1,275,974)
<b>DISTRIBUTIONS TO STOCKHOLDERS</b>		
	<u>(1,870,766)</u>	<u>(723,772)<sup>(b)</sup></u>
<b>TOTAL DECREASE IN NET ASSETS</b>	<u><b>(2,505,991)</b></u>	<u><b>(1,999,746)</b></u>
<b>NET ASSETS</b>		
Beginning of year	49,047,534	51,047,280
<b>End of year<sup>(a)</sup></b>	<u><b>\$46,541,543</b></u>	<u><b>\$49,047,534</b></u>

(a) Includes accumulated net investment loss of \$380,840 as of June 30, 2018.

(b) Represents realized gain distributed of \$723,772.

*See accompanying notes to the financial statements.*

# Financial Highlights

Years Ended June 30, 2015 through 2019

	Year Ended June 30				
	2019	2018	2017	2016	2015
<b>PER SHARE OPERATING PERFORMANCE</b>					
<b>(For a share of capital stock outstanding for each year)</b>					
Net asset value, beginning of year	<u>\$8.00</u>	<u>\$8.32</u>	<u>\$6.47</u>	<u>\$7.43</u>	<u>\$9.12</u>
Operations:					
Net investment loss <sup>1</sup>	(0.08)	(0.11)	(0.14)	(0.07)	(0.11)
Net realized and unrealized gain (loss) on investment transactions	(0.02)	(0.09)	2.12	(0.80)	(0.08)
Total From operations	(0.10)	(0.20)	1.98	(0.87)	(0.19)
Distributions:					
From net realized gains	(0.31)	(0.12)	(0.13)	(0.16)	(0.64)
Total distributions	(0.31)	(0.12)	(0.13)	(0.16)	(0.64)
Dilutive effect of rights offering	-	-	-	-	(0.86)
Accretive effect of ATM offering	-	-	-	0.07	-
Accretive effect of shares in reinvestment of distribution	-	-	-	0.00 <sup>2</sup>	0.00 <sup>2</sup>
Net asset value, end of year	<u>\$7.59</u>	<u>\$8.00</u>	<u>\$8.32</u>	<u>\$6.47</u>	<u>\$7.43</u>
Per share market value, end of year	<u>\$6.36</u>	<u>\$6.60</u>	<u>\$7.20</u>	<u>\$6.11</u>	<u>\$9.46</u>
Total investment return based on market value per share <sup>5</sup>	<u>2.16%</u>	<u>(6.82%)</u>	<u>20.17%</u>	<u>(33.73%)</u>	<u>25.40%</u>
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Net assets, end of year in (000's)	<u>\$46,542</u>	<u>\$49,048</u>	<u>\$51,047</u>	<u>\$39,699</u>	<u>\$41,611</u>
Ratio of expenses to daily average net assets	<u>2.79%</u>	<u>2.72%</u> <sup>4</sup>	<u>3.36%</u> <sup>3</sup>	<u>3.20%</u>	<u>2.97%</u>
Ratio of net investment loss to daily average net assets	<u>(1.06%)</u>	<u>(1.29%)</u> <sup>4</sup>	<u>(1.86%)</u> <sup>3</sup>	<u>(0.99%)</u>	<u>(1.36%)</u>
Portfolio turnover rate	<u>6%</u>	<u>19%</u>	<u>16%</u>	<u>9%</u>	<u>14%</u>

<sup>1</sup> Computed by dividing the respective year's amounts from the Statement of Operations by the average outstanding shares for each year presented.

<sup>2</sup> Amount rounds to less than \$0.01.

<sup>3</sup> This figure includes expenses incurred as a result of the expiration of the Fund's ATM offering. The overall impact on the Fund's ratios is an increase of 0.63% (Note 7).

<sup>4</sup> This figure includes expenses incurred as a result of the expiration of the Fund's shelf registration. The overall impact on the Fund's ratios is an increase of 0.22% (Note 7).

<sup>5</sup> Total investment return is calculated assuming a purchase of common stock at the current market price on the first day and a sale at the current market price on the last day of each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at actual prices pursuant to the Fund's Dividend Reinvestment Plan.

See accompanying notes to the financial statements.

# *Notes to Financial Statements*

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## **NOTE 1. ORGANIZATION AND RELATED MATTERS**

The Herzfeld Caribbean Basin Fund, Inc. (the “Fund”) is a non-diversified, closed-end management investment company incorporated under the laws of the State of Maryland on March 10, 1992, and registered under the Investment Company Act of 1940, as amended, and follows accounting and reporting guidance under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946, “Financial Services - Investment Companies”. The Fund commenced investing activities in January 1994. The Fund is listed on the NASDAQ Capital Market and trades under the symbol “CUBA.”

The Fund’s investment objective is to obtain long-term capital appreciation. The Fund pursues its objective by investing primarily in equity and equity-linked securities of public and private companies, including U.S.-based companies, (i) whose securities are traded principally on a stock exchange in a Caribbean Basin Country or (ii) that have at least 50% of the value of their assets in a Caribbean Basin Country or (iii) that derive at least 50% of their total revenue from operations in a Caribbean Basin Country (collectively, “Caribbean Basin Companies”). Under normal conditions, the Fund invests at least 80% of its total assets in equity and equity-linked securities of Caribbean Basin Countries. This 80% policy may be changed without stockholder approval upon sixty days written notice to stockholders. The Fund’s investment objective is fundamental and may not be changed without the approval of a majority of the Fund’s outstanding voting securities.

Under the Fund’s organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, in the normal course of business, the Fund enters into contracts with its vendors and others that provide for general indemnifications. The Fund’s maximum exposure under these arrangements is unknown as this would involve any future potential claims that may be made against the Fund. However, based on experience, management expects the risk of loss to be remote.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Security Valuation**

In accordance with accounting principles generally accepted in the United States of America (“GAAP”), fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Fund uses various valuation approaches. In accordance with GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.



## *Notes to Financial Statements*

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Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.
- Level 2: Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an active market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.
- Level 3: Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Fund's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Fund in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Fund's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Fund uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

## Notes to Financial Statements

Investments in securities traded on a national securities exchange (or reported on the NASDAQ National Market or Capital Market) are stated at the last reported sales price on the day of valuation (or at the NASDAQ official closing price); other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined, in good faith, by the Board of Directors.

The following table summarizes the classification of the Fund's investments by the above fair value hierarchy levels as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Assets (at fair value)				
Common Stocks				
USA	\$ 25,112,452	\$ 0	\$ 0	\$ 25,112,452
Mexico	6,293,019	0	0	6,293,019
Puerto Rico	6,693,647	0	0	6,693,647
Panama	4,851,436	0	0	4,851,436
Cayman	1,898,478	0	0	1,898,478
Colombia	933,011	0	0	933,011
Bonds				
Cuba	0	0	0	0
Total Investments in securities	\$ 45,782,043	\$ 0	\$ 0	\$ 45,782,043

The fair valued securities (Level 3) held in the Fund consisted of Cuban Electric Company, Ceramica Carabobo, Siderurgica Venezolana Sivena S.A., Admiralty Holding Company, Waterloo Investment Holding, W Holding Company and Republic of Cuba 4.5% bond. There was no change in value since June 30, 2018, therefore no Level 3 reconciliation table is required.

Under procedures approved by the Board, the Advisor provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Advisor convenes on a regular and ad hoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when recommending a fair value. The Advisor may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discount may be applied due to the nature or duration of any restrictions on the disposition of investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Advisor employs various methods for calibrating these valuation approaches including a regular view of valuation methodologies, key inputs and assumptions,

## *Notes to Financial Statements*

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transactional back-testing or disposition analysis and reviews of any related market activity.

### **Income Recognition**

Security transactions are recorded on the trade date. Gains and losses on securities sold are determined on the basis of identified cost. Dividend income is recognized on the ex-dividend date or in the case of certain foreign securities, as soon as the Fund is notified, and interest income is recognized on an accrual basis. Discounts and premiums on debt securities purchased are amortized over the life of the respective securities. It is the Fund's practice to include the portion of realized and unrealized gains and losses on investments denominated in foreign currencies as components of realized and unrealized gains and losses on investments and foreign currency. Withholding on foreign taxes have been provided for in accordance with the Fund's understanding of the applicable country's tax rules and rates. Pursuant to a custodian agreement, State Street Bank and Trust ("SSBT") receives a fee reduced by credits which are determined based on the average daily cash balance the Fund maintains with SSBT. Credit balances used to reduce the Fund's custodian fees for the year ended June 30, 2019 were \$0.

### **Foreign Currency**

The accounting records of the Fund are maintained in U.S. dollars. Foreign currency amounts and investments denominated in a foreign currency, if any, are translated into U.S. dollar amounts at current exchange rates on the valuation date. Purchases and sales of investments denominated in foreign currencies are translated into U.S. dollar amounts at the exchange rate on the respective dates of such transactions.

### **Deposits with Financial Institutions**

The Fund may, during the course of its operations, maintain account balances with financial institutions in excess of federally insured limits.

### **Counterparty Brokers**

In the normal course of business, substantially all of the Fund's money balances and security positions are custodied with the Fund's custodial broker, SSBT. The Fund also transacts with other brokers. The Fund is subject to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Fund's management monitors the financial condition of such brokers and does not anticipate any losses from these counterparties.

### **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with GAAP requires management to

## ***Notes to Financial Statements***

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make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Income Taxes**

The Fund's policy is to continue to comply with the provisions of the Internal Revenue Code of 1986, as amended, that are applicable to regulated investment companies and to distribute substantially all of its taxable income to its stockholders. Under these provisions, the Fund is not subject to federal income tax on its taxable income and no federal income or excise tax provision is required.

The Fund has adopted a June 30 year-end for federal income tax purposes.

### **Distributions to Stockholders**

Under a managed distribution plan, beginning in fiscal year ending June 30, 2020, the Fund will pay distributions to stockholders payable in quarterly installments at an annual rate, currently set at 15% of the Fund's NAV for the fiscal year ending June 30, 2019. The quarterly distributions may be sourced from income, paid-in capital, and/or capital gains, if any. To the extent that sufficient investment income is not available on a quarterly basis, the Fund may distribute paid-in capital and/or capital gains, if any, in order to maintain its managed distribution level.

Distributions to stockholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from GAAP. For the year ended June 30, 2019, a distribution from long-term capital gains of \$0.305 per share was declared on November 27, 2018.

Due to the timing of dividend distributions and the differences in accounting for income and realized gains and losses for financial statement and federal income tax purposes, the fiscal year in which the amounts are distributed may differ from the year in which the income and realized gains and losses are recorded by the Fund.

### **NOTE 3. RESTRICTED SECURITIES OWNED**

Investments in securities include \$165,000 principal, 4.5%, 1977 Republic of Cuba bonds, \$140,000 purchased for \$52,850 on February 15, 1995 and \$25,000 purchased for \$10,188 on April 27, 1995, that are currently segregated and restricted from transfer. The bonds were listed on the New York Stock Exchange ("NYSE") and had been trading in default since 1960. A "regulatory halt" on trading was imposed by the NYSE in July 1995 and

## ***Notes to Financial Statements***

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trading in the bonds was suspended as of December 28, 2006. The NYSE has stated that following the suspension of trading, application will be made to the Securities and Exchange Commission to delist the issue. As of June 30, 2019, the position was valued at \$0 under procedures approved by the Board of Directors.

Investments in securities also include 700 shares of Cuban Electric Company, 482 shares purchased for \$4,005 on September 30, 2005 and 218 shares purchased for \$1,812 on September 30, 2005, which are currently segregated and restricted from transfer. As of June 30, 2019, the position, was valued at \$0 under procedures approved by the Board of Directors.

### **NOTE 4. TRANSACTIONS WITH AFFILIATES**

HERZFELD / CUBA (the “Advisor”), a division of Thomas J. Herzfeld Advisors, Inc., is the Fund’s investment advisor and charges a monthly fee at the annual rate of 1.45% of the Fund’s average daily net assets. Total fees for the year ended June 30, 2019 amounted to \$668,416 of which \$55,210 is payable as of June 30, 2019. The outstanding amount payable as of June 30, 2019 has been paid in full as of the date of this report.

Mr. Thomas J. Herzfeld is the owner of the Advisor.

TMorgan Advisers Limited Liability Company (“TMA”) and Duff & Phelps, LLC (“D&P”) have been engaged by the Advisor to provide, among other things, certain compliance and operational support services with respect to the Fund, including the services of Mr. Thomas K. Morgan as the Fund’s chief compliance officer. A portion of the fees paid to TMA and D&P are allocated to the Fund for payment based on the estimated percentage of time spent by the personnel of TMA and D&P on the services provided to the Fund. The Fund may pay the amount of the fee allocated to it for compliance and support services directly to TMA and D&P or reimburse the Advisor for the Fund’s portion of such fees paid by the Advisor to TMA and D&P. For the year ended June 30, 2019, the total compliance and operational support services fees paid or payable by the Fund amounted to \$68,123.

### **NOTE 5. INVESTMENT TRANSACTIONS**

During the year ended June 30, 2019, purchases and sales of investment securities were \$2,767,763 and \$5,625,227, respectively.

### **NOTE 6. INCOME TAX INFORMATION**

The cost basis of securities owned for financial statement purposes is lower than the cost basis for income tax purposes by \$181,484 due to wash sale. As of June 30, 2019, gross unrealized gains were \$11,610,428 and gross unrealized losses were (\$5,569,219) for income tax purposes.

## Notes to Financial Statements

Permanent differences accounted for during the year ended June 30, 2019 result from the reclassification of the Fund's net investment loss for tax purposes. Such amounts have been reclassified as follows:

	Total Distributable Earnings	Additional Paid in Capital
Year ended June 30, 2019	\$586,395	(\$586,395)

At June 30, 2019, the Fund had undistributed capital gains of \$659,974.

At June 30, 2019, the Fund had a long-term capital loss carryover of \$0. To the extent that a fund may realize future net capital gains, those gains will be offset by any of its unused capital loss carry forward. Future capital loss carryover utilization in any given year may be subject to Internal Revenue Code limitation.

As of June 30, 2019, the Fund had \$0 of post-October losses which are deferred until fiscal year 2020 for tax purposes. Capital losses incurred after October 31 ("post-October losses") within that taxable year are deemed to arise on the first day of the Fund's next taxable year.

As of June 30, 2019, the Fund had \$193,684 of qualified late-year ordinary losses, which are deferred until fiscal year 2020 for tax purposes. Net late-year losses incurred after December 31 within the taxable year are deemed to arise on the first day of the Fund's next taxable year.

In accordance with GAAP, the Fund is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Fund files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states and foreign jurisdictions. Generally the Fund is no longer subject to income tax examinations by major taxing authorities for years before June 30, 2016. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

De-recognition of a tax benefit previously recognized results in the Fund recording a tax liability that reduces ending net assets.

The Fund's policy would be to recognize accrued interest expense to unrecognized tax benefits in interest expense and penalties in operating expenses. There were none for the year ended June 30, 2019.

The tax character of distributions paid to stockholders during the fiscal year ended June 30, 2019 and June 30, 2018 were as follows: long-term capital gains of \$1,870,766 and \$723,772, respectively.

# *Notes to Financial Statements*

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## **NOTE 7. CAPITAL SHARE TRANSACTIONS**

### *2018 Shelf Registration*

The Fund has incurred approximately \$22,558 of offering costs in association with a shelf registration, which is recorded as deferred offering costs and will be amortized over the life of the shelf registration if and when new shares are issued. These costs are categorized as deferred offering costs (shelf) on the Statement of Assets and Liabilities. As of June 30, 2019, \$0 has been amortized.

### *2015 ATM Offering and Shelf Registration*

In connection with its At-The-Market (“ATM”) offering, as of the expiration of the offering, the Fund had issued a total of 524,400 shares of common stock. The net asset value of the Fund’s common shares was increased by approximately \$0.07 per share as a result of the share issuance.

The Fund incurred approximately \$410,585 of offering costs in association with the offering, which was recorded as a deferred offering cost and amortized over the life of the offering as new shares were issued. At the expiration of the offering, \$122,223 of offering costs had been amortized. Upon expiration of the offering, the remaining \$288,362 of offering costs was expensed to legal expense (professional fees), audit expense (professional fees), printing and postage, and other expenses.

Additionally, the Fund incurred approximately \$120,115 of offering costs in association with a shelf registration, which was recorded as a deferred offering cost and amortized over the life of the shelf registration as new shares were issued. At the expiration of the shelf registration \$4,719 of offering costs had been amortized. Upon expiration of the shelf registration, the remaining \$115,396 of offering costs were expensed to legal expense (professional fees), audit expense (professional fees), printing and postage and registration expense.

### *Year-End Distributions*

On December 28, 2018, the Fund paid a year-end distribution of \$0.305 per share in cash.

On December 28, 2017, the Fund paid a year-end distribution of \$0.118 per share in cash.

# *Notes to Financial Statements*

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## **NOTE 8. INVESTMENT RISKS**

### **Foreign Securities Risk**

Securities traded in foreign markets have often (though not always) performed differently from securities traded in the United States. However, such investments often involve special risks not present in U.S. investments that can increase the chances that the Fund will lose money. In particular, the Fund is subject to the risk that because there may be fewer investors on foreign exchanges and a smaller number of securities traded each day, it may be more difficult for the Fund to buy and sell securities on those exchanges. In addition, prices of foreign securities may go up and down more than prices of securities traded in the United States.

### **Foreign Economy Risk**

The economies of certain foreign markets may not compare favorably with the economy of the United States with respect to such issues as growth of gross national product, reinvestment of capital, resources and balance of payments position. Certain foreign economies may rely heavily on particular industries or foreign capital and are more vulnerable to diplomatic developments, the imposition of economic sanctions against a particular country or countries, changes in international trading patterns, trade barriers and other protectionist or retaliatory measures. Investments in foreign markets may also be adversely affected by governmental actions such as the imposition of capital controls, nationalization of companies or industries, expropriation of assets or the imposition of punitive taxes. In addition, the governments of certain countries may prohibit or impose substantial restrictions on foreign investments in their capital markets or in certain industries. Any of these actions could severely affect securities prices or impair the Fund's ability to purchase or sell foreign securities or transfer the Fund's assets or income back into the United States, or otherwise adversely affect the Fund's operations.

Other potential foreign market risks include foreign exchange controls, difficulties in pricing securities, defaults on foreign government securities, difficulties in enforcing legal judgments in foreign courts and political and social instability. Legal remedies available to investors in certain foreign countries may be less extensive than those available to investors in the United States.

### **Currency Risk**

Securities and other instruments in which the Fund invests may be denominated or quoted in currencies other than the U.S. Dollar. Changes in foreign currency exchange rates may affect the value of the Fund's portfolio. Because the Fund's assets are primarily invested in securities of Caribbean Basin Companies, and because some portion of revenues and income may be received in foreign currencies while Fund distributions will be made in dollars, the dollar equivalent of the Fund's net assets and distributions would be adversely affected by reductions in the value of the foreign currencies relative to the dollar. For this reason, changes in foreign currency exchange rates can affect the value of the Fund's portfolio. Generally,



## *Notes to Financial Statements*

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when the U.S. Dollar rises in value against a foreign currency, a security denominated in that currency loses value because the currency is worth fewer U.S. Dollars. Conversely, when the U.S. Dollar decreases in value against a foreign currency, a security denominated in that currency gains value because the currency is worth more U.S. Dollars. This risk, generally known as “currency risk,” means that a strong U.S. Dollar may reduce returns for U.S. investors while a weak U.S. Dollar may increase those returns. The Fund is managed with the assumption that most of its stockholders hold their assets in U.S. Dollars. As a result, and because distributions are made in U.S. Dollars, other non-U.S. investors will be adversely affected by reductions in the value of the U.S. Dollar relative to their home currency.

### **Geographic Concentration Risk**

The Fund may invest from time to time a substantial amount of assets in issuers located in a single country or a limited number of countries. If the Fund concentrates its investments in this manner, it assumes the risk that economic, political and social conditions in those countries will have a significant impact on its investment performance. The Fund’s investment performance may also be more volatile if it concentrates its investments in certain countries, especially emerging market countries.

### **Managed Distribution Risk**

Under the managed distribution plan, the Fund makes quarterly distributions to stockholders at a rate set once a year that is a percentage of the Fund’s NAV at its most recent fiscal year-end, that may be sourced from income, paid-in capital, and/or capital gains, if any. To the extent that sufficient investment income is not available on a quarterly basis, the Fund may distribute paid-in capital and/or capital gains, if any, in order to maintain its managed distribution level. No conclusions should be drawn about the Fund’s investment performance from the amount of the Fund’s distributions or from the terms of the managed distribution plan. A return of capital occurs when some or all of the money that stockholders invested in the Fund is paid back to them. A return of capital does not reflect the Fund’s investment performance and should not be confused with “yield” or “income.” Any such returns of capital will decrease the Fund’s total assets and, therefore, could have the effect of increasing the Fund’s expense ratio. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio at a less than opportune time. There is a risk that amendment or termination of the managed distribution plan could have an adverse effect on the market price of the Fund’s shares.

### **NOTE 9. SUBSEQUENT EVENTS**

Management has evaluated the impact of subsequent events on the Fund, through the date the financial statements were issued, and has determined that there were no subsequent events that required disclosure in the financial statements.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and  
 The Board of Directors of  
 The Herzfeld Caribbean Basin Fund, Inc.**

### **Opinion on the Financial Statements**

We have audited the accompanying statement of assets and liabilities of The Herzfeld Caribbean Basin Fund, Inc. (the "Fund"), including the schedule of investments, as of June 30, 2019, the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, financial highlights for each of the four years in the period then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2019, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the four years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial highlights for the year ended June 30, 2015 were audited by other auditors whose report dated August 21, 2015, expressed an unqualified opinion on those financial highlights.

### **Basis for Opinion**

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We have served as the Fund's auditor since 2016.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of June 30, 2019 by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

**TAIT, WELLER & BAKER LLP**

**Philadelphia, Pennsylvania  
 August 19, 2019**

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## *Directors and Officers of the Fund (Unaudited)*

<b>Name Address and Age</b>	<b>Position(s) Held with Fund</b>	<b>Term of Office and Length of Time Served</b>
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### Interested Directors

<b>Thomas J. Herzfeld*</b> 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 Age: 74	Chairman, Director, Class III, and Portfolio Manager	three years; 1993 to present
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### Independent Directors

<b>John A. Gelety</b> c/o The Herzfeld Caribbean Basin Fund, Inc. 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 Age: 51	Director, Class II	three years; 2011 to present
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<b>Cecilia L. Gondor</b> c/o The Herzfeld Caribbean Basin Fund, Inc. 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 Age: 57	Director, Class I	three years; 2014 to present
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<b>Ann S. Lieff</b> c/o The Herzfeld Caribbean Basin Fund, Inc. 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 Age: 67	Director, Class II	three years; 1998 to present
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<b>Kay W. Tatum, Ph.D., CPA</b> c/o The Herzfeld Caribbean Basin Fund, Inc. 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 Age: 67	Director, Class I	three years; 2007 to present
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\* Mr. Thomas J. Herzfeld is an “interested person” of the Fund, (as defined in the 1940 Act) because he is a Director, control person, and employee of the Fund’s Advisor.

<b>Principal Occupation(s) During Past 5 Years</b>	<b>Number of Portfolios In Complex Overseen By Director</b>	<b>Other Directorships Held by Director</b>
Thomas J. Herzfeld Advisors, Inc., serving as Chairman, 1984-present; Portfolio Manager, 1984-present; and President, 1984-2016.	2	The Cuba Fund, Inc. (in registration)
Attorney and shareholder at Greenspoon Marder, LLP, corporate practice group, 2016-present; John A. Gelety, PA, a transactional law firm, 2005-2016.	1	None
Managing Member of L&M Management, a real estate management business, 2014-present; and Executive Vice President of Thomas J. Herzfeld Advisors, Inc., 1984-2014.	1	None
President of the Lieff Company, a management consulting firm that offers ongoing advisory services as a corporate director, 1998-present; former CEO Spec's Music 1980-1998, a retailer of recorded music.	1	None
Associate Professor of Accounting, University of Miami School of Business Administration, 1992-present; Chair, Department of Accounting, 2004-2008; Assistant Professor of Accounting, University of Miami, 1986-1992.	1	None

**Additional information about the Directors is included in the Fund's Prospectus.**

## ***Directors and Officers of the Fund (Unaudited)(cont'd)***

<b>Name Address and Age</b>	<b>Position(s) Held with Fund</b>	<b>Term of Office and Length of Time Served</b>
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### **Officers**

<b>Erik M. Herzfeld</b> 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 Age: 45	Portfolio Manager; President, Treasurer	2008 to present 2016 to present
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<b>Thomas K. Morgan</b> 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 Age: 60	CCO, Assistant Secretary	2018 to present
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<b>Alice Tham</b> 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 Age: 29	Secretary	2019 to present
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<b>Ryan M. Paylor*</b> 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 Age: 38	Portfolio Manager	2019 to present
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\* Mr. Paylor has been a portfolio manager for the Advisor's separately managed accounts since 2012 and a portfolio manager for the Fund since February 2019.

Principal Occupation(s) During Past 5 Years	Other Directorships Held by Officer
Thomas J. Herzfeld Advisors, Inc., serving as President, 2016-present; Portfolio Manager, 2007-present; and, Managing Director, 2007-2015; Vice President JPMorgan Chase 2000-2007, foreign exchange option trading.	Strategic Incubation Partners, Inc.
Thomas J. Herzfeld Advisors, Inc., serving as Chief Compliance Officer, 2018-present; TMorgan Advisers Limited Liability Company, compliance consulting and outsourced chief compliance officer services.	N/A
Thomas J. Herzfeld Advisors, Inc., serving as Operations Manager, 2012 to present	N/A
Thomas J. Herzfeld Advisors, Inc., serving as Portfolio Manager for the Advisor's separately managed accounts since 2012 to present	N/A

## ***Quarterly Portfolio Reports (Unaudited)***

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The Fund files quarterly schedules of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year (September and March) on Form N-Q. The Form N-Q is available by link on the Fund's website at [www.herzfeld.com/cuba](http://www.herzfeld.com/cuba), or by calling the Fund at 800-TJH-FUND or on the SEC's EDGAR database at [www.sec.gov](http://www.sec.gov).

## ***Proxy Voting Policies and Procedures (Unaudited)***

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Information regarding how the Fund voted proxies relating to portfolio securities from July 1, 2018 to June 30, 2019, and a description of the Fund's policies and procedures used to determine how to vote proxies relating to its portfolio securities is available without charge, upon request, by calling the Fund at 800-TJH-FUND or by accessing the SEC's website at [www.sec.gov](http://www.sec.gov).



## ***Privacy Policy (Unaudited)***

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We consider customer privacy to be an essential part of our investor relationships and are committed to maintaining the confidentiality, integrity and security of our current, prospective and former stockholders' non-public personal information. We have developed policies that are designed to protect this confidentiality, while permitting stockholder needs to be served.

### **Obtaining Personal Information**

While providing stockholders with products and services, we, and certain service providers, such as the Fund's Transfer Agents and/or Administrators, may obtain non-public personal information about stockholders, which may come from sources such as (i) account applications, subscription agreements and other forms, (ii) written, electronic or verbal correspondence, (iii) stockholder transactions, (iv) a stockholder's brokerage or financial advisory firm, financial advisor or consultant, and/or (v) from information captured on applicable websites. The non-public personal information that may be collected from stockholders may include the stockholder's name, address, tax identification number, birth date, investment selection, beneficiary information, and possibly the stockholder's personal bank account information and/or email address if the stockholder has provided that information, as well as the stockholder's transaction and account history with the Fund.

### **Respecting Your Privacy**

We do not disclose any non-public personal information provided by stockholders or gathered by us to third parties, except as required or permitted by law or as necessary for such third parties to perform their agreements with respect to the Fund. Non-affiliated companies may from time to time be used to provide certain services, such as maintaining stockholder accounts, preparing and mailing prospectuses, reports, account statements and other information, and gathering stockholder proxies. In many instances, the stockholders will be clients of a third party, but we may also provide a stockholder's personal and account information to the stockholder's respective brokerage or financial advisory firm and/or financial advisor or consultant.

### **Sharing Information with Third Parties.**

We reserve the right to report or disclose personal or account information to third parties in circumstances where we believe in good faith that disclosure is required or permitted under law, to cooperate with regulators or law enforcement authorities, to protect their rights or property, or upon reasonable request by the Fund's Investment Advisor. In addition, we may disclose information about a stockholder or a stockholder's accounts to a third party at the stockholder's request or with the consent of the stockholder.

### **Procedures to Safeguard Private Information.**

We are committed to our obligation to safeguard stockholder non-public personal information. In addition to this policy, we have implemented procedures that are designed

## ***Privacy Policy (Unaudited) (Continued)***

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to limit access to a stockholder's non-public personal information to internal personnel who require the information to complete tasks, such as processing transactions, maintaining stockholder accounts or otherwise providing services the stockholder requested. Physical, electronic and procedural safeguards are in place to guard a stockholder's non-public personal information.

### **Information Collected from Websites.**

Websites maintained by the Fund, the Investment Advisor or their service providers may use a variety of technologies to collect information that helps the Fund, the Investment Advisor and their service providers understand how the website is used. Information collected from your web browser (including small files stored on your device that are commonly referred to as "cookies") allow the websites to recognize your web browser and help to personalize and improve your user experience and enhance navigation of the website. If you are a registered user of the Fund's or the Investment Advisor's and/or their service providers' website, the Fund or the Investment Advisor, their service providers, or third party firms engaged by the Fund or the Investment Advisor and/or their service providers, may collect or share information submitted by you, which may include personally identifiable information. You can change your cookie preferences by changing the setting on your web browser to delete or reject cookies. If you delete or reject cookies, some website pages may not function properly. The Fund and the Investment Advisor do not look for web browser "do not track" requests.

### **Changes to the Privacy Policy.**

From time to time, we may update or revise this privacy policy. If there are changes to the terms of this privacy policy, documents containing the revised policy on the relevant website will be updated.

## ***Dividend Reinvestment Plan (Unaudited)***

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**Registered holders (“Stockholders”) of shares of common stock, \$0.001 par value (“Common Stock”) of Herzfeld Caribbean Basin Fund, Inc. (the “Fund”) will automatically be enrolled (“Participants”) in the Fund’s Dividend Reinvestment Plan (the “Plan”) and are advised as follows:**

1. State Street Bank & Trust Company (the “Agent”) will act as agent for each Participant. The Agent will open an account for each registered stockholder as a Participant under the Plan in the same name in which such Participant’s shares of Common Stock are registered.
2. **CASH OPTION.** Pursuant to the Fund’s Plan, unless a holder of Common Stock otherwise elects, all dividend and capital gains distributions payable in cash (“Distributions”) will be automatically reinvested by the Agent in additional Common Stock of the Fund. Stockholders who elect not to participate in the Plan will receive all cash distributions in cash paid by check mailed directly to the stockholder of record (or, if the shares are held in street or other nominee name then to such nominee) by the Agent, as dividend paying agent. Stockholders and Participants may elect not to participate in the Plan and to receive all cash distributions of dividends and capital gains in cash by sending written instructions to the Agent, as dividend paying agent, at the address set forth below.
3. **MARKET PREMIUM ISSUANCES.** If on the payment date for a Distribution, the net asset value per Common Stock is equal to or less than the market price per Common Stock plus estimated brokerage commissions, the Agent shall receive newly issued Common Stock (“Additional Common Stock”) from the Fund for each Participant’s account. The number of Additional Common Stock to be credited shall be determined by dividing the dollar amount of the Distribution by the greater of (i) the net asset value per Common Share on the payment date, or (ii) 95% of the market price per Common Share on the payment date.
4. **MARKET DISCOUNT PURCHASES.** If the net asset value per Common Stock exceeds the market price plus estimated brokerage commissions on the payment date for a Distribution, the Agent (or a broker-dealer selected by the Agent) shall endeavor to apply the amount of such Distribution on each Participant’s Common Stock to purchase Common Stock on the open market. In the event of a market discount on the payment date, the Agent will have 30 days after the dividend payment date (the “last purchase date”) to invest the dividend amount in shares acquired in open-market purchases. The weighted average price (including brokerage commissions) of all Common Stock purchased by the

## *Dividend Reinvestment Plan (Unaudited) (Continued)*

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Agent as Agent shall be the price per Common Stock allocable to each Participant. If, before the Agent has completed its purchases, the market price plus estimated brokerage commissions exceeds the net asset value of the Common Stock as of the payment date, the purchase price paid by Agent may exceed the net asset value of the Common Stock, resulting in the acquisition of fewer Common Stock than if such Distribution had been paid in Common Stock issued by the Fund. Because of the foregoing difficulty with respect to open-market purchases, the Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent may cease making open-market purchases and may invest the uninvested portion of the dividend amount in newly issued Common Stock at the net asset value per Common Stock at the close of business on the last purchase date. Participants should note that they will not be able to instruct the Agent to purchase Common Stock at a specific time or at a specific price. Open-market purchases may be made on any securities exchange where Common Stock are traded, in the over-the-counter market or in negotiated transactions, and may be on such terms as to price, delivery and otherwise as the Agent shall determine. Each Participant's uninvested funds held by the Agent will not bear interest. The Agent shall have no liability in connection with any inability to purchase Common Stock within the time provided, or with the timing of any purchases effected. The Agent shall have no responsibility for the value of Common Stock acquired. The Agent may commingle Participants' funds to be used for open-market purchases of the Fund's shares and the price per share allocable to each Participant in connection with such purchases shall be the average price (including brokerage commissions and other related costs) of all Fund shares purchased by Agent. The rules and regulations of the Securities and Exchange Commission may require the Agent to limit the Agent's market purchases or temporarily cease making market purchases for Participants.

5. The market price of Common Stock on a particular date shall be the last sales price on the securities exchange where the Common Stock are listed on that date (currently the NASDAQ Capital Market)(the "Exchange"), or, if there is no sale on the Exchange on that date, then the average between the closing bid and asked quotations on the Exchange on such date will be used. The net asset value per Common Stock on a particular date shall be the amount calculated on that date (or if not calculated on such date, the amount most recently calculated) by or on behalf of the Fund.
6. Whenever the Agent receives or purchases shares or fractional interests for a Participant's account, the Agent will send such Participant a notification of the transaction as soon as practicable. The Agent will hold such shares and fractional interests as such Participant's agent and may hold them in the Agent's name or the name of the Agent's nominee. The Agent will not send a Participant stock certificates for shares unless a Participant so requests in writing or unless a Participant's account is terminated as stated below. The Agent will vote any shares so held for a Participant in accordance with any proxy returned to the Fund by such Participant in respect of the shares of which such Participant is the record holder.

## *Dividend Reinvestment Plan (Unaudited) (Continued)*

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7. There is presently no service charge for the Agent serving as Participants' agent and maintaining Participants' accounts. The Agent may, however, charge Participants for extra services performed at their request. The Plan may be amended in the future to impose a service charge. In acting as Participants' agent under the Plan, the Agent shall be liable only for acts, omissions, losses, damages or expenses caused by the Agent's willful misconduct or gross negligence. In addition, the Agent shall not be liable for any taxes, assessments or governmental charges which may be levied or assessed on any basis whatsoever in connection with the administration of the Plan.
8. The Agent may hold each Participant's Common Stock acquired pursuant to the Plan together with the Common Stock of other Stockholders of the Fund acquired pursuant to the Plan in non-certificated form in the Agent's name or that of the Agent's nominee. Each Participant will be sent a confirmation by the Agent of each acquisition made for his or her account as soon as practicable, but in no event later than 60 days, after the date thereof. Upon a Participant's request, the Agent will deliver to the Participant, without charge, a certificate or certificates for the full Common Stock. Although each Participant may from time to time have an undivided fractional interest in a Common Share of the Fund, no certificates for a fractional share will be issued. Similarly, Participants may request to sell a portion of the Common Stock held by the Agent in their Plan accounts by calling the Agent, writing to the Agent, or completing and returning the transaction form attached to each Plan statement. The Agent will sell such Common Stock through a broker-dealer selected by the Agent within 5 business days of receipt of the request. The sale price will equal the weighted average price of all Common Stock sold through the Plan on the day of the sale, less brokerage commissions. Participants should note that the Agent is unable to accept instructions to sell on a specific date or at a specific price. Any share dividends or split shares distributed by the Fund on Common Stock held by the Agent for Participants will be credited to their accounts. In the event that the Fund makes available to its Stockholders rights to purchase additional Common Stock, the Common Stock held for each Participant under the Plan will be added to other Common Stock held by the Participant in calculating the number of rights to be issued to each Participant.

If a Participant holds more than one Common Stock Certificate registered in similar but not identical names or if more than one address is shown for a Participant on the Fund's records, all of such Participant's shares of Common Stock must be put into the same name and address if all of them are to be covered by one account. Additional shares subsequently acquired by a Participant otherwise than through the Plan will be covered by the Plan.

9. The reinvestment of Distributions does not relieve Participants of any federal, state or local taxes which may be payable (or required to be withheld on Distributions.) Participants will receive tax information annually for their personal records and to help them prepare their federal income tax return. For further information as to tax consequences of participation in the Plan, Participants should consult with their own tax advisors.

## ***Dividend Reinvestment Plan (Unaudited) (Continued)***

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10. Each registered Participant may terminate his or her account under the Plan by notifying the Agent in writing at State Street Bank and Trust, P.O. Box 642, Boston, MA 02117-0642, or by calling the Agent at (617) 662-2760. Such termination will be effective with respect to a particular Distribution if the Participant's notice is received by the Agent prior to such Distribution record date. The Plan may be terminated by the Agent or the Fund upon notice in writing mailed to each Participant at least 60 days prior to the effective date of the termination. Upon any termination, the Agent will cause a certificate or certificates to be issued for the full shares held for each Participant under the Plan and cash adjustment for any fraction of a Common Share at the then current market value of the Common Shares to be delivered to him. If preferred, a Participant may request the sale of all of the Common Shares held by the Agent in his or her Plan account in order to terminate participation in the Plan. If any Participant elects in advance of such termination to have Agent sell part or all of his shares, Agent is authorized to deduct from the proceeds the brokerage commissions incurred for the transaction. If a Participant has terminated his or her participation in the Plan but continues to have Common Shares registered in his or her name, he or she may re-enroll in the Plan at any time by notifying the Agent in writing at the address above.
11. These terms and conditions may be amended by the Agent or the Fund at any time but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, only by mailing to each Participant appropriate written notice at least 30 days prior to the effective date thereof. The amendment shall be deemed to be accepted by each Participant unless, prior to the effective date thereof, the Agent receives notice of the termination of the Participant's account under the Plan. Any such amendment may include an appointment by the Agent of a successor Agent, subject to the prior written approval of the successor Agent by the Fund.
12. These terms and conditions shall be governed by the laws of the State of Maryland.

Dated: November 22, 2006

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**THE HERZFELD CARIBBEAN BASIN FUND, INC.**

119 Washington Avenue

Suite 504

Miami Beach, FL 33139