



THE HERZFELD CARIBBEAN BASIN FUND, INC.

*SEMI-ANNUAL REPORT
DECEMBER 31, 2018*

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 shareholder 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, 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. You may elect to receive shareholder 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.

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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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 the Caribbean Basin Countries.

Listed NASDAQ Capital Market
Symbol: CUBA

Letter to Stockholders

January 31, 2019

Dear Fellow Stockholders,

We are pleased to present our Semi-Annual Report for the six-month period ended December 31, 2018. On that date, the net asset value of The Herzfeld Caribbean Basin Fund, Inc. (NASDAQ: CUBA) (the "Fund") was \$6.50 per share, down -18.75% for the six months then ended, adjusted for the \$0.305 per share year-end capital gains distribution paid on December 28, 2018. The Fund's market price closed the period at \$4.90 per share, a drop of -25.76% over the same semi-annual time period, also adjusted for the distribution.* For calendar year 2018, the Fund's net asset value declined -17.35% while the market price declined -27.33%; both figures are adjusted for the year-end distribution.



*Thomas J. Herzfeld
Chairman and
Portfolio Manager*

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 which we believe can do well even if there is no political or economic change with respect to Cuba.

Caribbean Update

After a catastrophic 2017 Atlantic hurricane season, the Caribbean received a reprieve in 2018 which allowed the region to continue to rebuild and recover. The effect of 2017's hurricanes are still being felt as 2018 saw a year over year decline of 2% in tourist arrivals for the Caribbean. However, there have been some bright spots as islands like Puerto Rico have seen a marked increase in economic activity of 21.5% year over year as of November, per the Economic Development Bank for Puerto Rico. Disaster aid, rebuilding the electrical grid, and restructuring government debt has contributed to Puerto Rico's recovery. Throughout the Caribbean, the vast majority of hotels that were closed in the aftermath of the 2017 hurricanes have since reopened and cruise ships have returned to most of the hardest hit islands which should drive an increase in tourist arrivals.

*The calculation of the total investment return assumes reinvestment of dividends and distributions at prices obtained by the dividend reinvestment plan.

Letter to Stockholders (continued)



*Erik M. Herzfeld
President and
Portfolio Manager*

As the Caribbean islands were recovering from natural disasters, Caribbean Basin countries in Central America and Latin America were experiencing new and continuing political instability. Guatemala and Nicaragua joined the ranks of countries with authoritarian regimes shunning democracy, joining Venezuela and Cuba. Under the Trump administration, we believe the U.S. has arguably abandoned its leadership role in advancing democracy, focusing more on securing the southern border with Mexico and limiting immigration, especially from Central America. Congress has not voted on the Trump administration's retooled NAFTA agreement and so there remains uncertainty on trade with Mexico. Tariffs on both sides remain in place which, according to reports, has negatively impacted trade with Mexico the U.S.'s second largest export and import market. We feel, geopolitics and the general decline of democracy have been major headwinds in the Caribbean Basin over the last six months. Some of these issues could be remediated with a new NAFTA agreement but the political trend of new strongmen emerging in the region is likely a longer term negative for growth.

The crisis in Venezuela may have reached a turning point as Juan Guaido, the head of Venezuela's National Assembly, at this writing, calls for elections to remove President Nicolas Maduro. Many of the countries in the Western Hemisphere, with the exception of Cuba, Bolivia, and Nicaragua, support Guaido. Many European nations are also backing new elections and The Bank of England took the step of denying Maduro's request to pull \$1.2 billion of gold from its vault as his cash-poor government struggles to maintain power. The collapse of the Maduro regime would be a major blow to Cuba as subsidized oil is one of Cuba's major benefits of its relationship with Venezuela. The two countries have tried to prop up one another over the years as the only two socialist countries in the Western Hemisphere. The collapse of one could lead to the collapse of the other which could, hopefully, usher in democracy and capitalism to the countries.

Portfolio

Over the calendar year, the Fund was negatively affected by its holdings in consumer discretionary, materials, and industrials while being bolstered by Puerto Rican financials, utilities, and telecom. Because of the Caribbean's economic focus on tourism, most of the holdings in the Fund are susceptible to cyclical swings in price. For example, our large allocation to cruise lines through Royal Caribbean Cruises Ltd. (RCL), Norwegian Cruise Line Holdings Ltd. (NCLH), and Carnival Corp. (CCL) saw declines between -16.14% and -23.40%. The poor performance was in spite of record revenues for these companies buoyed by accelerated growth in net revenue yields as revenue-management policies appear to have proven successful and sustainable so far. The sharp drop in oil prices in the fourth quarter of 2018 provided a tailwind as it afforded cruise lines the ability to hedge their bunker fuel costs at lower prices setting up cruise lines for a possible rebound in 2019. Our largest holding, MasTec Inc. (MTZ), dropped -10.05% in December to finish the

Letter to Stockholders (continued)

year down -17.14%. Industrials struggled in 2018 as valuation compression occurred throughout the industry ensnaring the likes of MTZ. MTZ continues to have a large backlog of major energy and telecommunication projects that could provide revenue streams for years to come. At the close of 2018, MTZ had a P/E of 14.16, its lowest since September of 2011, despite its backlog and analyst estimates of double digit growth for 2019.



Ryan M. Paylor
Portfolio Manager

Our best performers in 2018 were our Puerto Rican holdings: Banco Popular (BPOP), First BanCorp (FBP), and Evertec Inc. (EVTC) which gained between 35.81% and 111.07%. The Puerto Rican banks continue to be supported by an influx of federal aid and insurance claim disbursements to the island and the continuing normalization of the island's economy following the 2017 hurricanes.

EVTC was especially affected by the hurricanes as their transaction processing business was rendered useless while the island was blacked out. With electricity back online, EVTC has thrived as its business has grown beyond Puerto Rico to Latin America as the trend of favoring electronic transactions over cash expands worldwide. We expect this trend to continue which is positive for future growth in EVTC.

We added PGT Innovations, Inc. (PGTI) to the portfolio in the second half of 2018, as we felt the pullback in the stock price was a good opportunity to add the impact window and door manufacturer. PGTI is a dominant player in the market for impact-resistant windows and doors. With hurricane sensitive states in the US and countries in the Caribbean strengthening their building codes in the aftermath of the last two hurricane seasons and the prospect that climate change will continue the trend of devastating storms, our belief is that PGTI can be one of the biggest beneficiaries. Their products can better protect homeowners and businesses from hurricanes and break-ins along with lowering their hurricane insurance premiums and electrical bills. With their end market consisting of 46% new residential and 54% repair & remodel, the company is well-positioned to adapt to changes in market trends. The destruction of homes in recent years by Hurricanes Michael, Harvey, Maria, Jose, and Irma only reiterate the need for homeowners and businesses to better protect their property from future storms. We believe the company will continue to exhibit strong growth over the next few years.

Outlook

Entering 2019, there is a lot of geopolitical and economic uncertainty that has been weighing on the global market. The impact of the unresolved U.S. trade war with China has spread globally and many businesses in the Caribbean Basin have taken a "wait-and-see" approach before allocating serious funds to capital expenditures. A new NAFTA agreement is still unresolved as the U.S. Congress has yet to vote on the trilateral changes agreed by the Trump Administration, Canada, and Mexico. Nonetheless, we feel these current headwinds could switch to tailwinds if the U.S. and China can resolve their differences and a new NAFTA is ratified.

Letter to Stockholders (continued)

The Fund ended 2018 at its lowest valuation since 2008 as the P/E of the portfolio was 15.86 and next year's forward P/E estimate is 10.22. The S&P 500 finished with an average P/E of 16.93 and a forward P/E estimate of 15.63 which is considerably more expensive than the Herzfeld Caribbean Basin Fund. We believe that the market has priced in a recession in the Caribbean which we do not foresee.

The International Monetary Fund sees "prospects for the Caribbean improving with expected growth in the 1-2% range in 2018 and 2019." We have positioned the Fund in industrial and consumer discretionary names that we believe can benefit if a recession doesn't materialize while also staying overweight the rebound in the Puerto Rican economy following Hurricanes Maria and Irma. U.S. consumers continue to show willingness to spend on experiences and travel within the Caribbean Basin providing a natural landing spot for those American dollars. After the tumult of 2018 in the global equity markets, we believe the Caribbean Basin appears poised to rebound from what we consider to be a currently inexpensive market valuation.

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.

Letter to Stockholders (continued)

New Additions

We are pleased to announce new additions to Fund management.

Thomas K. Morgan joined the Fund's Advisor as Chief Compliance Officer and was appointed as Chief Compliance Officer to the Fund. Tom is an attorney with over 30 years of legal and business experience. He began his legal career in Boston focusing on corporate finance, regulatory, and banking matters. Tom's regulatory compliance experience includes acting as consultant and chief compliance officer for a variety of fund managers in the financial services industry, including advisers to mutual funds, hedge funds, private equity funds and commercial real estate funds. He also founded and developed a custom software development company in the financial services industry and was an Executive Vice President for Viewpoint Corporation, a public company in the graphics technology industry. Tom holds an AB in Economics from Harvard College and a juris doctorate from Boston College School of Law.

Ryan M. Paylor has been appointed to Portfolio Manager to the Fund. Ryan has been with the Advisor since 2012, and serves as a Portfolio Manager for the Advisor's separately managed accounts and institutional clients of the Advisor and for the Virtus Herzfeld Fund. Prior to joining the Advisor, Ryan worked at JP Morgan Chase in New York on the FX Derivatives Operations team. He holds a B.A. from Williams College.

Alice Tham has been appointed to Secretary of the Fund. Alice has also been with the Fund's Advisor since 2012, and serves as Head of Operations for the Advisor's separately managed accounts. Prior to joining the Advisor, Alice worked in the Client Services Group at Scottrade, Inc.

We are very excited with these additions to the Advisor and to the Fund.

Letter to Stockholders (continued)

Largest Allocations

The following tables present our largest investment and geographic allocations as of December 31, 2018.

<i>Geographic Allocation</i>	<i>% of Net Assets</i>	<i>Largest Portfolio Positions</i>	<i>% of Net Assets</i>
<i>USA</i>	<i>53.46%</i>	<i>MasTec, Inc.</i>	<i>11.92%</i>
<i>Mexico</i>	<i>15.47%</i>	<i>Royal Caribbean Cruises Ltd.</i>	<i>7.65%</i>
<i>Puerto Rico</i>	<i>14.76%</i>	<i>Popular Inc.</i>	<i>6.54%</i>
<i>Panama</i>	<i>10.28%</i>	<i>Norwegian Cruise Line Holdings Ltd.</i>	<i>6.05%</i>
<i>Cayman Islands</i>	<i>3.74%</i>	<i>First BanCorp (Puerto Rico)</i>	<i>5.81%</i>
<i>Colombia</i>	<i>1.89%</i>	<i>Lennar Corporation</i>	<i>4.86%</i>
<i>Cuba</i>	<i>0.00%</i>	<i>Copa Holdings, S.A.</i>	<i>4.79%</i>
<i>Cash and</i>		<i>Cemex S.A.B. de C.V. ADR</i>	<i>3.75%</i>
<i>Other Countries</i>	<i>0.40%</i>	<i>Consolidated Water, Inc.</i>	<i>3.55%</i>
		<i>Fomento Exonómico Mex SP ADR</i>	<i>3.15%</i>

Weekly net asset values and press releases by the Fund are available at www.herzfeld.com.

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

Schedule of Investments as of December 31, 2018 (unaudited)

Shares or Principal Amount	Description	Fair Value
Common stocks - 99.60% of net assets		
Airlines - 7.84%		
270,869	Avianca Holdings, SA Spon ADR	\$ 1,099,728
24,273	Copa Holdings, S.A.	1,910,528
13,474	ERA Group Inc.*	117,767
Banking and finance - 18.51%		
63,166	Banco Latinoamericano de Exportaciones, S.A.	1,092,771
19,780	Bancolombia, S.A.	753,618
21,356	Evertec Inc.	612,917
269,477	First BanCorp. (Puerto Rico)*	2,317,502
55,230	Popular Inc.	2,607,961
3,844	W Holding Company Inc.* ¹	--
Communications - 3.40%		
44,690	América Móvil, S.A.B. de C.V. ADR	636,832
209,144	América Móvil, S.A.B. de C.V. Series L	148,571
479,175	Fuego Enterprises Inc.*	47,917
208,234	Grupo Radio Centro S.A.B. de C.V. Series A*	153,317
28,400	Grupo Televisa, S.A.B. ADR	357,272
32,272	Spanish Broadcasting System, Inc.*	6,132
14,017	Telesites S.A.B. Series B-1*	8,320
Conglomerates and holding companies - 0.00%		
250,000	Admiralty Holding Company* ¹	--
Construction and related - 20.40%		
310 645	Cemex S.A.B. de C.V. ADR*	1,497,309
20	Ceramica Carabobo Class A ADR* ¹	--
3,000	Martin Marietta Materials	515,610
117,297	MasTec, Inc.*	4,757,566
55,170	PGT Innovations Inc. *	874,445
5,000	Vulcan Materials	494,000
Consumer products and related manufacturing - 2.79%		
327,290	Grupo Casa Saba, S.A.B. de C.V.* ¹	\$ --
8,000	Watsco Incorporated	1,113,120

See accompanying notes to the financial statements.

Schedule of Investments as of December 31, 2018 (unaudited)

Shares or Principal Amount	Description	Fair Value
Food, beverages and tobacco - 9.05%		
740,000	Becle, S.A.B. de C.V.*	991,614
18,900	Fomento Económico Mexicano, S.A.B. de C.V. Series UBD	162,169
14,610	Fomento Económico Mexicano, S.A.B. de C.V. ADR	1,257,190
42,500	Fresh Del Monte Produce Inc.	1,201,475
Housing - 4.86%		
49,500	Lennar Corporation	1,937,925
Investment companies - 0.00%		
70,000	Waterloo Investment Holdings Ltd.* ¹	--
Leisure - 19.08%		
19,518	Carnival Corporation	962,237
16,745	Marriott Vacations Worldwide Corp.	1,180,690
56,944	Norwegian Cruise Line Holdings Ltd.*	2,413,856
31,229	Royal Caribbean Cruises Ltd.	3,053,884
Mining - 0.02%		
3,872	Grupo México, S.A.B. de C.V. Series B	7,976
Retail - 1.49%		
1,270	Grupo Elektra, S.A.B. de C.V. Series CPO	61,099
210,222	Wal-Mart de México, S.A.B. de C.V. Series V	533,514
Service - 2.49%		
6,600	Grupo Aeroportuario del Sureste, S.A.B de C.V. ADR	993,960
Trucking and marine freight - 2.43%		
274	Seaboard Corporation	969,414
Utilities - 6.35%		
12,000	Caribbean Utilities Ltd. Class A	72,240
121,638	Consolidated Water, Inc.	1,418,299
700	Cuban Electric Company* ¹	--
6,000	NextEra Energy Inc.	1,042,920
Other - 0.89%		
25,000	Geltech Solutions Inc.*	4,227
55,921	Margo Caribe, Inc.*	349,506
79	Siderurgica Venezolana Sivensa, S.A. Series B* ¹	--

See accompanying notes to the financial statements.

Schedule of Investments as of December 31, 2018 (unaudited)

Total common stocks (cost \$40,078,354)	<u>\$39,737,399</u>
Bonds - 0% of net assets	
\$165,000 Republic of Cuba - 4.5%, 1977 - in default (Note 3)* ¹	<u>\$ --</u>
Total bonds (cost \$63,038)	<u>\$ --</u>
Total investments (cost \$40,141,392) - 99.60% of net assets	<u>\$39,737,399</u>
Other assets less liabilities - 0.40% of net assets	<u>\$ 160,429</u>
Net assets - 100%	<u><u>\$39,897,828</u></u>

See accompanying notes to the financial statements.

Schedule of Investments as of December 31, 2018 (unaudited)

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

United States of America	53.46%
Mexico	15.47%
Puerto Rico	14.76%
Panama	10.28%
Other, individually under 5%**	6.03%
	<hr/> 100.00%

¹Securities 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.

**Amount includes other assets less liabilities of 0.40%.

See accompanying notes to the financial statements.

Statement of Assets and Liabilities as of December 31, 2018 (unaudited)

ASSETS

Investments in securities, at fair value (cost \$40,141,392) (Notes 2 and 3)	\$ 39,737,399
Cash	262,483
Dividends receivable	61,305
Deferred offering costs (shelf)	22,558
Other assets	<u>29,320</u>
TOTAL ASSETS	40,113,065

LIABILITIES

Accrued investment advisor fee (Note 4)	\$ 49,401
Accrued directors fees	35,600
Accrued professional fees	29,500
Accrued insurance expense	19,500
Accrued compliance and operational support services expense	20,195
Accrued custody expense	7,000
Foreign tax withholding	2,161
Other payables	<u>51,880</u>
TOTAL LIABILITIES	<u>215,237</u>

NET ASSETS (Equivalent to \$6.50 per share based on 6,133,659 shares outstanding)	<u>\$ 39,897,828</u>
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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	40,631,623
Accumulated net investment loss	(638,400)
Accumulated net realized gain on investments and foreign currency	302,464
Net unrealized loss on investments and foreign currency (Note 5)	<u>(403,993)</u>
NET ASSETS	<u>\$ 39,897,828</u>

See accompanying notes to the financial statements.

Statement of Operations (unaudited)
Six Months Ended December 31, 2018

INVESTMENT INCOME AND EXPENSES

Dividends (net of foreign tax withholding of \$4,567.00)		\$ 405,332
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Investment advisory fees (Note 4)	\$ 340,244	
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Professional fees	91,358	
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Directors fees	65,000	
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Custodian fees	42,000	
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Compliance and operational support services fees (Note 4)	26,923	
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Insurance	19,500	
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Listing fees	15,000	
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Printing and postage	14,452	
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Transfer agent fees	12,000	
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Proxy services	4,983	
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Other	20,543	
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Total investment expenses		<u>652,003</u>
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NET INVESTMENT LOSS		(246,671)
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**REALIZED AND UNREALIZED GAIN (LOSS)
ON INVESTMENTS AND FOREIGN CURRENCY**

Net realized gain on investments and foreign currency	834,490	
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Change in unrealized appreciation/depreciation on investments and foreign currency	<u>(7,855,882)</u>	
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NET LOSS ON INVESTMENTS		<u>(7,021,392)</u>
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**NET DECREASE IN NET ASSETS RESULTING
FROM OPERATIONS**

	<u><u>(\$7,268,062)</u></u>
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See accompanying notes to the financial statements.

Statements of Changes in Net Assets

Six Months Ended December 31, 2018 and Year Ended June 30, 2018

	Six Months Ended 12/31/18 (unaudited)	Year-Ended 6/30/18
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS		
Net investment loss	(\$ 246,671)	(\$ 660,929)
Net realized gain on investments and foreign currency	834,490	3,291,828
Net change in unrealized appreciation/depreciation on investments and foreign currency	(7,855,882)	(3,906,873)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	(7,268,062)	(1,275,974)
DISTRIBUTIONS TO STOCKHOLDERS		
Realized loss	(1,870,766)	(723,772)
TOTAL DECREASE IN NET ASSETS	(9,138,828)	(1,999,746)
NET ASSETS		
Beginning	49,047,534	51,047,280
Ending	<u>\$39,897,828</u>	<u>\$49,047,534</u>
ACCUMULATED NET INVESTMENT LOSS	<u>(\$ 638,400)</u>	<u>(\$ 380,840)</u>

See accompanying notes to the financial statements.

Financial Highlights

	Year Ended June 30				
	2018	2017	2016	2015	2014
Six Months Ended					
12/31/18					
unaudited					
PER SHARE OPERATING PERFORMANCE					
(For a share of capital stock outstanding for each period)					
Net asset value, beginning of period	\$8.00	\$6.47	\$7.43	\$9.12	\$9.28
Operations:					
Net investment loss ¹	(0.04)	(0.14)	(0.07)	(0.11)	(0.07)
Net realized and unrealized gain (loss) on investment transactions	(1.15)	2.12	(0.80)	(0.08)	1.05
Total from operations	(1.19)	1.98	(0.87)	(0.19)	0.98
Distributions:					
From net realized gains	(0.31)	(0.13)	(0.16)	(0.64)	(1.14)
Total distributions	(0.31)	(0.13)	(0.16)	(0.64)	(1.14)
Dilutive effect of rights offering	--	--	--	(0.86)	--
Accretive effect of ATM	--	--	0.07	--	--
Accretive effect of shares in reinvestment of distribution	--	--	0.00 ²	0.00 ²	--
Net asset value, end of period	\$6.50	\$8.32	\$6.47	\$7.43	\$9.12
Per share market value, end of period	\$4.90	\$7.20	\$6.11	\$9.46	\$8.15
Total investment return (loss) based on market value per share ⁶	(25.76%)	20.17%	(33.73%)	25.40%	8.98%
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of period (in 000's)	\$39,898	\$51,047	\$39,669	\$41,611	\$33,862
Ratio of expenses to monthly average net assets	2.79% ⁵	3.36% ³	3.20%	2.97%	2.46%
Ratio of net investment loss to monthly average net assets	(1.06%) ⁵	(1.86%) ³	(0.99%)	(1.36%)	(0.78%)
Portfolio turnover rate	9%	19%	9%	14%	24%

¹Computed by dividing the respective period's amounts from the Statement of Operations by the average outstanding shares for each period presented.

²Amount is less than \$0.01.

³This 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).

⁴This 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).

⁵This figure has been annualized; however, the percentage shown is not necessarily indicative of results for a full year.

⁶Total 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 the net asset value of the Fund on the dividend ex-date.

See accompanying notes to the financial statements.

Notes to Financial Statements (unaudited)

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 used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Notes to Financial Statements (unaudited)

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 (unaudited)

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 by the Fund's Board of Directors.

The following table summarizes the classification of the Fund's investments by the above fair value hierarchy levels as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Assets (at fair value)				
Common Stocks				
USA	\$ 21,330,015	\$ 0	\$ 0	\$ 21,330,015
Mexico	6,172,313	0	0	6,172,313
Puerto Rico	5,312,822	575,064	0	5,887,886
Panama	4,103,028	0	0	4,103,028
Cayman Islands	1,490,539	0	0	1,490,539
Colombia	753,618	0	0	753,618
Other	160,429	0	0	160,429
Bonds				
Cuba	0	0	0	0
Total Investments in securities	\$ 39,322,764	\$ 575,064	\$ 0	\$ 39,897,828

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used to determine fair value, as of December 31, 2018:

Investment in Securities at Value	
	<u>Level 3</u>
Balance as of 6/30/18	\$ 0
Realized/Unrealized gain/(loss)	0
Net purchases	0
Transfer into Level 3	0
Transfer out of Level 3	0
Balance as of 12/31/18	\$ 0

Additional quantitative disclosures for assets in which Level 3 inputs are used in determining fair value are presented when there are significant Level 3 investments at the end of the period.

All transfers are recognized by the Fund at the end of each reporting period. Transfers from Level 1 to Level 2 were \$225,557. Transfers between Levels related to the availability of trade information near the valuation date.

Under procedures approved by the Board of Directors, the Advisor provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Board of Directors. Among other things, these procedures allow the Fund

Notes to Financial Statements (unaudited)

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 arriving at 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. Discounts 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, 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 to reduce the Fund's custodian fees for the six month period ended December 31, 2018 were approximately \$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.

Notes to Financial Statements (unaudited)

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 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 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 all 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 tax provision is required.

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

Distributions to Stockholders

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-end distribution as of December 31, 2018, 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.

Notes to Financial Statements (unaudited)

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 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 December 31, 2018, the position was valued at \$0 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 December 31, 2018, the position was valued at \$0 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, payable at the annual rate of 1.45% of the Fund’s average daily net assets. Total fees for the six month period ended December 31, 2018 amounted to \$340,244, of which \$49,401 is payable as of December 31, 2018.

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

TMorgan Advisers, LLC (“TMA”) and Duff & Phelps (“D&P”), LLC 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 six months ended December 31, 2018, the total compliance and operational support services fees paid or payable by the Fund amounted to \$26,923.

NOTE 5. INVESTMENT TRANSACTIONS

During the six month period ended December 31, 2018, purchases and sales of investment securities were \$2,236,984 and \$4,266,313 respectively.

At December 31, 2018, the Fund’s investment portfolio had unrealized losses of \$403,993 for financial statement purposes.

Notes to Financial Statements (unaudited)

NOTE 6. INCOME TAX INFORMATION

The cost basis of securities owned on December 31, 2018, for financial statement purposes is lower than the cost basis for income tax purposes by \$89,620 due to wash sale adjustments and book-to-tax adjustments to partnership investment. As of December 31, 2018, gross unrealized gains were \$178,277 and gross unrealized losses were \$582,269 for income tax purposes.

Permanent differences accounted for during the year ended June 30, 2018, result from differences between book and tax accounting for the characterization of foreign currency losses, partnership adjustments, and the reclassification of the Fund's net investment loss for tax purposes. Such amounts have been reclassified as follows:

	Accumulated Net Investment Income	Realized Loss on Investments	Additional Paid in Capital
Year ended June 30, 2018	\$586,069	(\$30,724)	(\$555,345)

At June 30, 2018, the Fund had undistributed capital gains of \$1,448,350.

At June 30, 2018, 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, 2018, the Fund had \$0 of post-October losses which are deferred until fiscal year 2019 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, 2018, the Fund had \$380,840 of qualified late-year ordinary losses, which are deferred until fiscal year 2019 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, 2015. 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.

Notes to Financial Statements (unaudited)

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, 2018.

The tax character of distributions paid to shareholders during the fiscal year ended June 30, 2018 and June 30, 2017 were as follows: long-term capital gains of \$723,772 and \$827,799, respectively.

NOTE 7. CAPITAL STOCK 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 December 31, 2018, \$0 has been amortized.

2015 ATM Offering

In connection with its At-The-Market 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 the offering costs had been amortized. Upon expiration of the offering, the remaining \$288,362 of offering costs were 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, 2017, the Fund paid a year-end distribution of \$0.118 per share in cash.

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

Notes to Financial Statements (unaudited)

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

Notes to Financial Statements (unaudited)

in foreign currency exchange rates can affect the value of the Fund's portfolio. Generally, 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 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 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.

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.

Results of November 7, 2018 Stockholder Meeting

The annual meeting of stockholders of the Fund was held on November 7, 2018. At the meeting two nominees to serve as Class I directors were elected, as follows:

	Votes For	Votes Withheld
Cecilia L. Gondor	4,486,527	650,577
Kay W. Tatum	4,488,501	648,603

The terms of office as directors of John A. Gelety, Thomas J. Herzfeld and Ann S. Lieff continued after the meeting.

Dividend Reinvestment Plan

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 shareholder 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 shareholder 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 (continued)

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 (continued)

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 (continued)

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

Discussion Regarding the Approval of the Investment Advisory Agreement

The Fund's Board of Directors (the "Board"), including a majority of those directors who are not "interested persons" as such term is defined in the 1940 Act ("Independent Directors"), unanimously approved the continuance of the investment advisory agreement between the Fund and the Advisor (the "Advisory Agreement") at a meeting held on August 14, 2018.

In connection with its approval of the continuance of the Advisory Agreement, the Board noted it was provided with written materials provided by the Advisor and by the Fund's legal counsel including (i) a memorandum from the Fund's legal counsel regarding the Directors' responsibilities in evaluating and approving the Advisory Agreement, (ii) a letter from the Advisor containing detailed information about the Advisor's services to the Fund, Fund performance, allocation of Fund transactions, compliance and administration information, and the compensation received by the Advisor from the Fund; (iii) a copy of the Advisory Agreement between the Fund and the Advisor; (iv) the Advisor's Form ADV Parts 1A, and 2A and 2B; (v) audited financial statements for the Advisor for the year-ended December 31, 2017 and unaudited financial statements for the six months ended June 30, 2018; (vi) comparative performance data for the Fund relative to peer funds (foreign equity funds including emerging market and Latin American regional and single country funds) for the six-month and the twelve-month periods ended June 30, 2018 and (vii) comparative statistics and expense ratios and fee data for the Fund relative to foreign equity closed-end peer funds.

During its deliberations on whether to approve the continuance of the Advisory Agreement, the Board considered many factors. The Board considered the nature, extent and quality of the services to be provided by the Advisor and determined that such services will meet the needs of the Fund and its stockholders. The Board reviewed the services provided to the Fund by the Advisor as compared to services provided by other advisers, which manage investment companies with investment objectives, strategies and policies similar to those of the Fund, the Advisor's history and experience providing investment services to the Fund. The Board concluded that the nature, extent and quality of the services provided by the Advisor were appropriate and consistent with the terms of the Advisory Agreement, that the quality of those services had been consistent with industry norms and that the Fund was likely to benefit from the continued provision of those services. The Board also concluded that the Advisor had sufficient personnel, with the appropriate education and experience, to serve the Fund effectively and had demonstrated an ability to retain qualified personnel.

Both at the meetings and on an ongoing basis throughout the year, the Board considered and evaluated the investment performance of the Fund and reviewed the Fund's performance relative to other investment companies and funds in the Caribbean and Latin American regions. The Board considered performance of the Fund, noting that the Fund's net asset value performance was reasonable compared to funds used in the comparative data for the six-month and twelve-month periods ended June 30, 2018, but noted that there were no other funds focused on the Caribbean

Discussion Regarding the Approval of the Investment Advisory Agreement (continued)

Basin region. The Board concluded that the performance of the Fund was within an acceptable range of performance relative to other funds used in the comparison.

The Board considered the costs of the services provided by the Advisor, the compensation and benefits received by the Advisor providing services to the Fund, as well as the Advisor's profitability. The Board considered the advisory fees paid to the Advisor by the Fund and relevant comparable fee data and statistics of Latin American-specialist and small foreign equity funds. The Board noted that there are no funds with which to make a direct comparison because of the Fund's unique strategy. The Board also noted that the Fund is smaller than many Latin American regional funds, and, therefore its total expense ratio is relatively higher than funds presented in comparison. The Board further discussed the services by the Advisor and concluded that the advisory services performed were efficient and satisfactory and that the fee charged was reasonable and not excessive. The Board concluded that the Advisor's fees and profits derived from its relationship with the Fund in light of its expenses, were reasonable in relation to the nature and quality of the services provided, taking into account the fees charged by other advisers for managing comparable funds with similar strategies.

The Board also considered the extent to which economies of scale would be realized relative to fee levels as the Fund grows, and whether the advisory fee levels reflect these economies of scale for the benefit of stockholders. The Board recognized that because of the closed-end structure of the Fund, and that there is no influx of additional capital, this particular factor is less relevant to the Fund than it would typically be to an open-end fund. The Board concluded that only marginal economies of scale could be achieved through the growth of assets since the Fund is a closed-end fund.

The Board also considered in its deliberations the Advisor's services and performance from the regular Board meetings held throughout the year, including the Board's discussion of the Fund's investment objective, long-term performance, investment style and process. The Board noted the high level of diligence with which it reviews and evaluates the Advisor throughout the year and the extensive information provided with respect to the Advisor's performance and the Fund's expenses on a quarterly basis. The Board also considered whether any events occurred or whether additional information or data was necessary for their review that would constitute a reason not to renew the Agreement and concluded there were not.

After further consideration of the factors discussed above and information presented at the August 14, 2018 meeting and at previous meetings of the Board, the Board, and the Independent Directors, determined to continue the Advisory Agreement for an additional one-year period. In arriving at its decision, the Board and the Independent Directors did not identify any single matter, factor or consideration as controlling.

Quarterly Portfolio Reports

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 on Form N-Q. The Form N-Q is available by link on the Fund's website at www.herzfeld.com, by calling the Fund at 800-TJH-FUND, or on the SEC's EDGAR database at www.sec.gov. In addition, the Form N-Q can be reviewed and copied at the SEC's public reference room in Washington, D.C. More information about the SEC's website or the operation of the public reference room can be obtained by calling the SEC at 1-800-732-0330.

Proxy Voting Policies and Procedures

Information regarding how the Fund voted proxies relating to portfolio securities from July 1, 2017 to June 30, 2018, and a description of the policies and procedures used to determine how to vote proxies relating to 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.

Privacy Policy

Information We Collect

We collect nonpublic information about our stockholders from applications or other account forms that they complete, from their transactions with us, our affiliates or others through transactions and conversations over the telephone.

Information We Disclose

We do not disclose information about our stockholders, or our former stockholders, to our affiliates or to service providers or other third parties except on the limited basis permitted by law. For example, we may disclose nonpublic information about stockholders to third parties to assist us in servicing a stockholders' account with us and to send transaction confirmations, annual reports, prospectuses and tax forms to our stockholders. We may also disclose nonpublic information about our stockholders to government entities in response to subpoenas.

Our Security Procedures

To ensure the highest level of confidentiality and security, we maintain physical, electronic and procedural safeguards that comply with federal standards to guard stockholders' personal information. We also restrict access to stockholders' personal and account information to those employees who need to know that information to provide services to our stockholders.

Officers and Directors

Officers

ERIK M. HERZFELD

President and Treasurer

THOMAS K. MORGAN

Chief Compliance Officer and
Assistant Secretary

ALICE THAM

Secretary

Directors

THOMAS J. HERZFELD

Interested Director and Chairman
of the Board

JOHN A. GELETY

Independent Director

CECILIA L. GONDOR

Independent Director

ANN S. LIEFF

Independent Director

KAY W. TATUM, Ph.D.

Independent Director

Portfolio Managers

THOMAS J. HERZFELD

Portfolio Manager

ERIK M. HERZFELD

Portfolio Manager

RYAN M. PAYLOR

Portfolio Manager

THE HERZFELD CARIBBEAN BASIN FUND, INC.

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