

HERZFELD CARIBBEAN BASIN FUND INC
Form N-Q
November 22, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT
INVESTMENT COMPANY

Investment Company Act file number 811-06445

The Herzfeld Caribbean Basin Fund, Inc.

(Exact name of registrant as specified in charter)

119 Washington Avenue, Suite 504, Miami Beach FL 33139

(Address of principal executive offices) (Zip code)

ERIK M. HERZFELD

119 Washington Avenue, Suite 504, Miami Beach FL 33139

(Name and address of agent for service)

Registrant's telephone number, including area code: 305-271-1900

Date of fiscal year end: 06/30/18

Date of reporting period: 09/30/17

ITEM 1. SCHEDULE OF INVESTMENTS

SCHEDULE OF INVESTMENTS AS OF September 30, 2017 (unaudited)

| Shares or Principal Amount | Description | Market Value |
|----------------------------------|--|-----------------|
| | Common stocks – 97.34% of net assets | |
| | Airlines – 10.14% | |
| 221,569 | Avianca Holdings, SA Spon ADR | 1,719,375 |
| 26,273 | Copa Holdings, S.A. | 3,271,777 |
| 21,515 | ERA Group Inc.* | 240,753 |
| | Banking and finance – 15.63% | |
| 19,780 | Bancolombia, S.A. | 905,726 |
| 58,166 | Banco Latinoamericano de Exportaciones, S.A. | 1,712,407 |
| 23,643 | Evertec Inc. | 374,742 |
| 370,875 | First BanCorp. (Puerto Rico)* | 1,898,880 |
| 28,417 | Home Bancshares Inc. | 716,665 |
| 60,900 | Popular Inc. | 2,188,746 |
| 3,844 | W Holding Co. Inc.* | -- |
| 14,000 | Western Union | 268,800 |
| | Communications – 5.15% | |
| 44,690 | America Movil, S.A.B. de C.V. ADR | 793,247 |
| 71,200 | America Movil, S.A.B. de C.V. Series A | 63,949 |
| 209,144 | America Movil, S.A.B. de C.V. Series L | 186,233 |
| 11,988 | ATN International | 631,768 |
| 479,175 | Fuego Enterprises Inc.* | 122,717 |
| 210,994 | Grupo Radio Centro, S.A.B. de C.V. Series A* | 127,810 |
| 28,400 | Grupo Televisa, S.A.B. ADR | 700,628 |
| 32,272 | Spanish Broadcasting System, Inc.* | 27,754 |
| 14,017 | Telesites S.A.B Series B-1* | 10,822 |
| | Conglomerates and holdings companies – 0.00% | |
| 250,000 | Admiralty Holding Company* | -- |
| | Construction and related – 16.44% | |
| 270,645 | Cemex S.A.B. de C.V. ADR* | 2,457,457 |
| 70,590 | Cemex S.A.B. de C.V. Series CPO | 64,296 |
| 20 | Ceramica Carabobo Class A ADR* | -- |
| 3,000 | Martin Marietta Materials | 618,690 |
| 102,297 | Mastec, Inc.* | 4,746,581 |
| 5,000 | Vulcan Materials | 598,000 |

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| | | |
|---------|---|-----------|
| | Consumer products and related manufacturing – 3.31% | |
| 327,290 | Grupo Casa Saba, S.A.B. de C.V. ADR* | -- |
| 10,600 | Watsco Incorporated | 1,707,342 |
| | Food, beverages and tobacco – 8.20% | |
| 740,000 | Becele, S.A.B. de C.V.* | 1,244,523 |
| 18,900 | Fomento Economico Mexicano, S.A.B. de C.V. Series UBD | 180,973 |
| 14,610 | Fomento Economico Mexicano, S.A.B. de C.V. ADR | 1,395,693 |
| 31,000 | Fresh Del Monte Produce Inc. | 1,409,260 |
| | Housing – 5.06% | |
| 49,500 | Lennar Corporation | 2,613,600 |
| | Investment companies – 0.00% | |
| 70,000 | Waterloo Investment Holdings Ltd.* | -- |

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| | | |
|---------|--|--------------|
| | Leisure – 17.82% | |
| 26,000 | Carnival Corp. | 1,678,820 |
| 8,745 | Marriott Vacations Worldwide Corp. | 1,089,015 |
| 46,944 | Norwegian Cruise Line Holdings Ltd.* | 2,537,323 |
| 32,829 | Royal Caribbean Cruises Ltd. | 3,891,550 |
| | Mining – 0.86% | |
| 3,872 | Grupo Mexico, S.A.B. de C.V. Series B | 11,891 |
| 81,900 | Tahoe Resources, Inc. | 431,613 |
| | Pulp and paper - 0.07% | |
| 18,300 | Kimberly-Clark de Mexico, S.A.B. de C.V. Series A | 37,398 |
| | Railroad – 0.49% | |
| 1,928 | Norfolk Southern Corporation | 254,959 |
| | Retail – 1.22% | |
| 1,270 | Grupo Elektra, S.A.B. de C.V. Series CPO | 57,699 |
| 1,000 | PriceSmart, Inc. | 89,250 |
| 210,222 | Wal-Mart de Mexico, S.A.B. de C.V. Series V | 482,743 |
| | Service - 0.78% | |
| 2,100 | Grupo Aeroportuario del Sureste, S.A.B. de C.V. Series B | 400,722 |
| | Trucking and marine freight – 5.68% | |
| 585 | Seaboard Corporation | 2,635,425 |
| 2,000 | Seacor Holdings, Inc.* | 92,220 |
| 2,010 | Seacor Marine Holdings, Inc.* | 31,436 |
| 9,589 | Teekay LNG Partners LP | 170,684 |
| | Utilities – 5.77% | |
| 12,000 | Caribbean Utilities Ltd. Class A | 150,600 |
| 129,538 | Consolidated Water, Inc. | 1,658,086 |
| 700 | Cuban Electric Company* | -- |
| 8,000 | Nextera Energy, Inc. | 1,172,400 |
| | Other – 0.72% | |
| 25,000 | Geltech Solutions Inc.* | 4,500 |
| 55,921 | Margo Caribe, Inc.* | 369,079 |
| 79 | Siderurgica Venezolana Sivensa, S.A. Series B* | -- |
| | Total common stocks – 97.34% (cost \$40,183,964) | 50,246,627 |
| | Bonds – 0.00% of net assets | |
| 165,000 | Republic of Cuba - 4.5%, 1977 - in default (cost \$63,038) | -- |
| | Total investments – 97.34% (cost \$40,247,002) | 50,246,627 |
| | Other assets less liabilities – 2.66% of net assets | \$1,374,768 |
| | | \$51,621,395 |

Net assets - 100% (**applicable to 6,133,659 shares; equivalent to \$8.42 per share**)

*Non-income producing

Security Valuation

The Herzfeld Caribbean Basin Fund, Inc. (the “Fund”) records its investments in securities at fair value. Under generally accepted accounting principles (“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. GAAP establishes 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.

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.

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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 the 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 Board of Directors.

The following table summarizes the classification of the Fund's investments by the above fair value hierarchy levels as of September 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|--------------|-----------|---------|--------------|
| Assets (at fair value) | | | | |
| Common Stocks | | | | |
| USA | \$27,771,920 | \$0 | \$ 0 | \$27,771,920 |
| Mexico | 8,054,605 | 0 | 0 | 8,054,605 |
| Panama | 6,703,559 | 0 | 0 | 6,703,559 |
| Puerto Rico | 4,462,367 | 369,079 | 0 | 4,831,446 |
| Cayman | 1,808,686 | 0 | 0 | 1,808,686 |
| Colombia | 905,726 | 0 | 0 | 905,726 |
| Other | 170,685 | 0 | 0 | 170,685 |
| Bonds | | | | |
| Cuba | 0 | 0 | 0 | 0 |
| Total Investments in securities | \$49,877,548 | \$369,079 | \$ 0 | \$50,246,627 |

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

| | Investments in Securities at Fair Value |
|----------------------------|---|
| Balance June 30, 2017 | \$ 0 |
| Unrealized gain/(loss) | 0 |
| Purchases | 0 |
| Sales | 0 |
| Transfers into Level 3 | 0 |
| Transfers out of Level 3 | 0 |
| Balance September 30, 2017 | \$ 0 |

Transfers from Level 2 to Level 1 were \$150,600. Transfers from Level 1 to Level 2 were \$369,079.

For more information with regards to significant accounting policies, see the most recent semi-annual or annual report filed with the Securities and Exchange Commission.

Unrealized Appreciation/(Depreciation)

As of September 30, 2017, the cost basis for federal income tax purposes, gross unrealized appreciation, gross unrealized depreciation and net unrealized appreciation/(depreciation) were as follows:

| Tax Cost of Securities | Tax Unrealized Appreciation | Tax Unrealized (Depreciation) | Net Tax Unrealized Appreciation/(Depreciation) |
|------------------------|-----------------------------|-------------------------------|---|
| \$40,343,988 | \$12,904,198 | (\$3,001,559) | \$9,902,639 |

ITEM 2. CONTROLS AND PROCEDURES

The registrant's principal executive and principal financial Officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 (a) days of the filing date of this Form N-Q that includes the disclosure required by this paragraph based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934 (17 CFR 240.13a-15(b) or 240.15d-15(b)).

There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that has (b) materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS

The certifications required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002 are attached as an exhibit to this filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Herzfeld Caribbean Basin Fund, Inc.

By /s/ Erik M. Herzfeld
Erik M. Herzfeld
President

Date: November 22, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Erik M. Herzfeld
Erik M. Herzfeld
President

Date: November 22, 2017

By /s/ Reanna Lee
Reanna Lee
Treasurer

Date: November 22, 2017