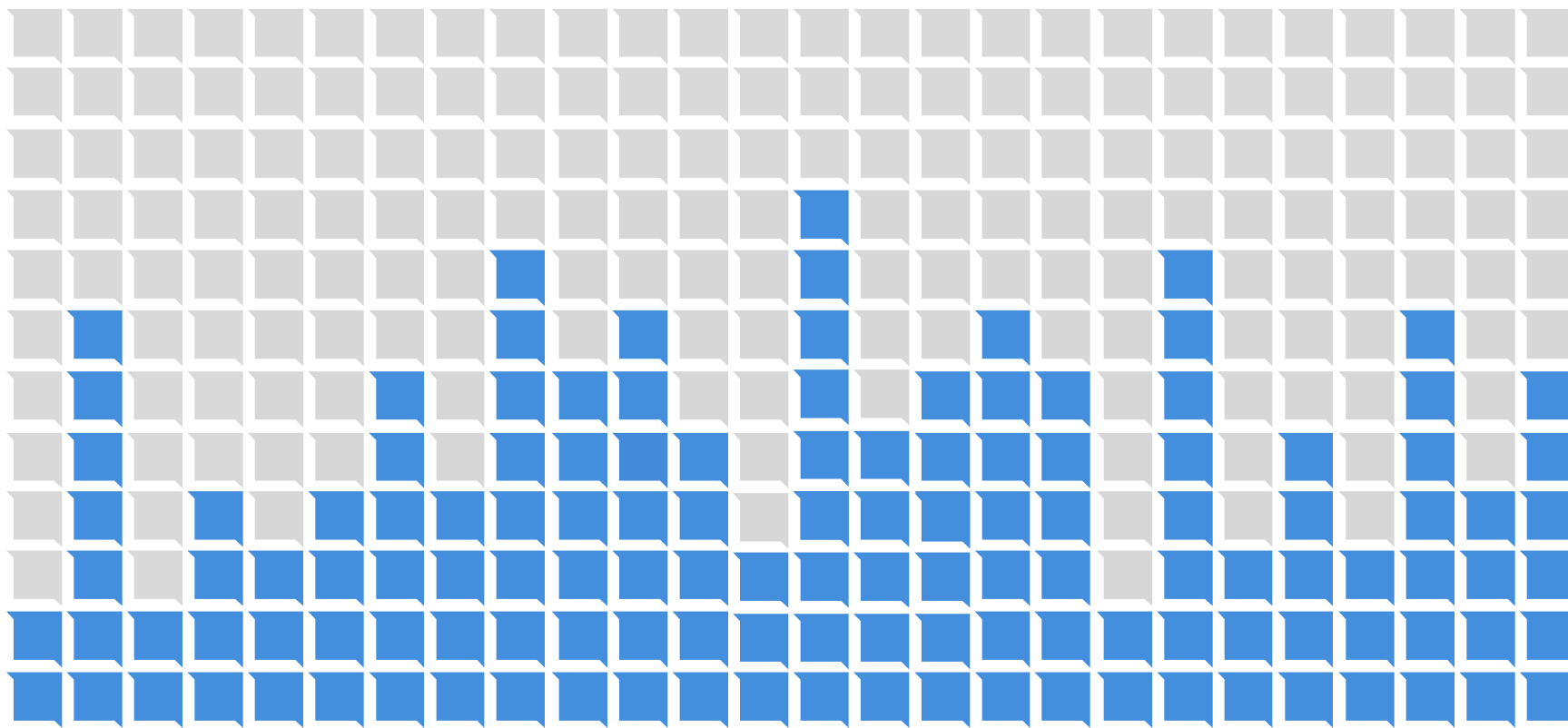




# Eaton Vance Municipal Market Chart Book





## First Half 2014 Municipal Market Overview

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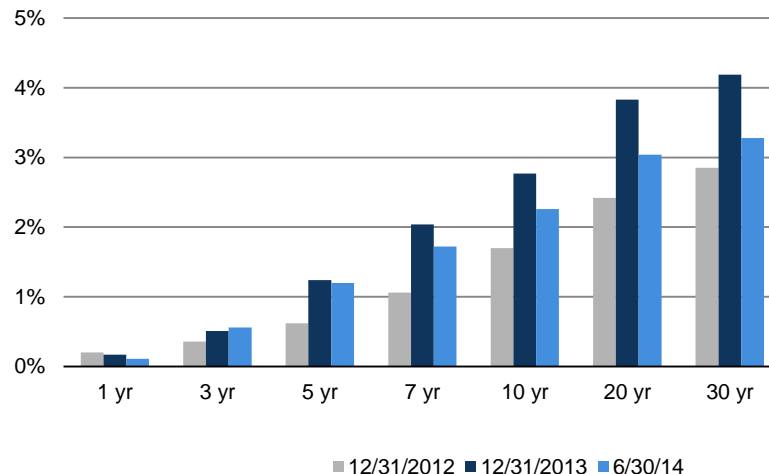
- After rising significantly during 2013, municipal yields bounced back during the first half as mutual fund flows turned positive, new issuance declined and the treasury market rallied.
- In a stark contrast to 2013, longer duration outperformed shorter duration and lower quality outperformed higher quality.
- The municipal curve flattened as 5 yr, 10 yr and 30 yr yields declined 14 basis points (bps), 55 bps and 92 bps, respectively.
- Tax-exempt fund flows turned positive signaling a shift in retail sentiment toward the asset class.
- New issuance declined during the first half and was down relative to the first half of 2013.
- The municipal credit environment continued to improve as state tax collections increased and municipal defaults declined.
- Higher tax rates have increased the value of the municipal tax exemption and made municipal yields more attractive on a taxable equivalent basis.



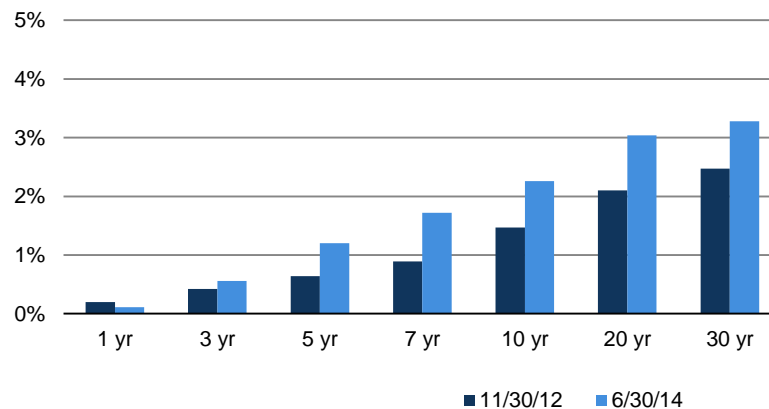
# Municipal Yield Changes

- After rising significantly during 2013, municipal yields bounced back during the first half as mutual fund flows turned positive, new issuance declined and the treasury market rallied.
- For the first half, the municipal yield curve bull flattened as 5 yr, 10 yr and 30 yr yields declined 14 bps, 55 bps and 92 bps, respectively.
- Despite the sharp rally, 10 yr and 30 yr yields remain approximately 80 bps higher than their lowest levels reached in November of 2012.
- On November 30<sup>th</sup> of 2012, 10 yr and 30 yr year AAA yields touched 1.47% and 2.47%, respectively.
- As of the end of Q2 2014, 10 yr and 30 yr year AAA yields stood at 2.26% and 3.28%, respectively.

**AAA Municipal Yields (%)**



**AAA Municipal Yields (%)**



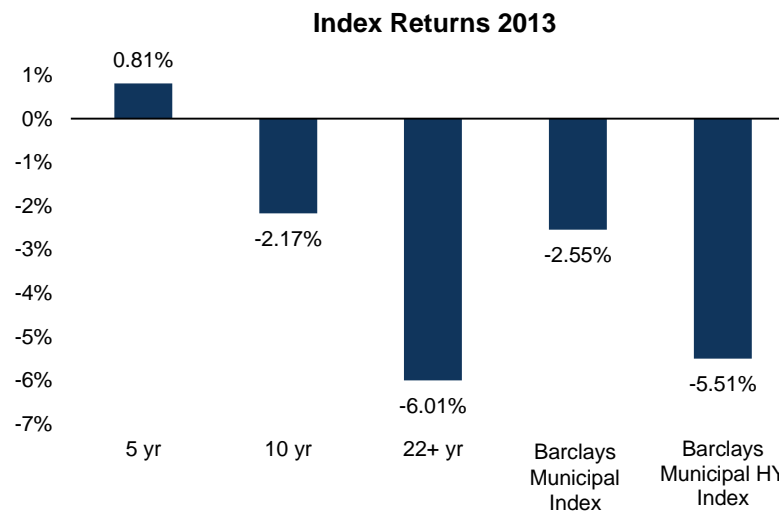
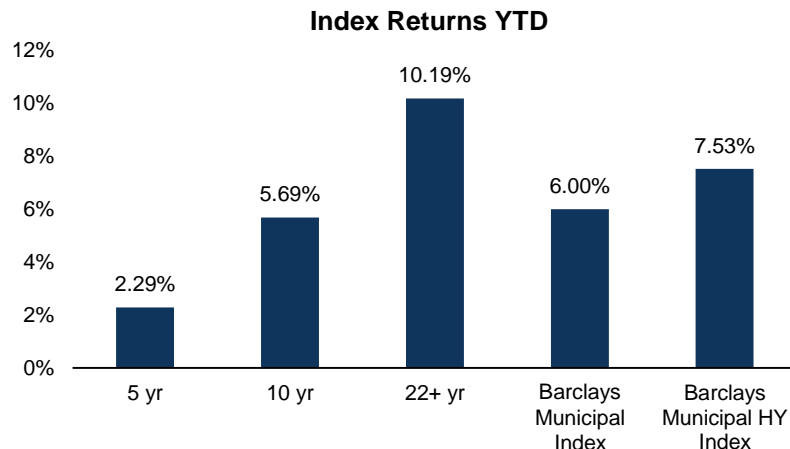
Source: Barclays Capital as of 6/30/14

Past performance is no guarantee of future results. It is not possible to invest directly in an index. See end of report for important additional information.



# Index Returns: YTD vs. 2013

- Municipal returns were solid across the curve during the first half.
- In a stark contrast to the market's performance in 2013, longer duration outperformed shorter duration and lower quality outperformed higher quality.
- After declining -6.01% in 2013, the Barclays 22+ Year Index returned +10.19% during the first half.
- Similarly, the Barclays High Yield Municipal Index returned +7.53% during the first half following a decline of -5.51% during 2013.
- In contrast, the Barclays 5 year Index, which was up slightly in 2013, was up just +2.29% during the first half of 2014.



Source: Barclays Capital as of 6/30/14

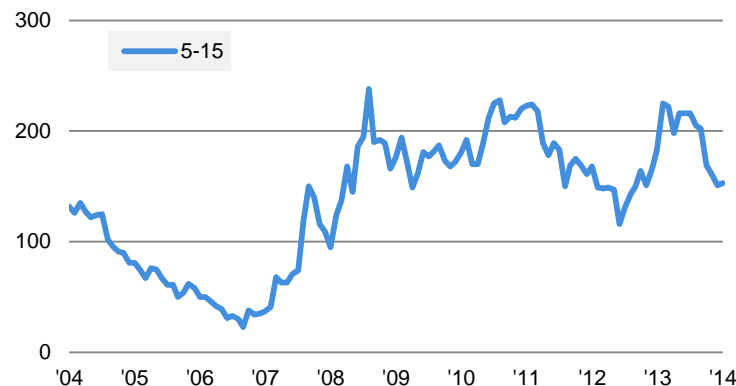
Past performance is no guarantee of future results. Performance less than one year is cumulative. It is not possible to invest directly in an index. See end of report 3 for important additional information.



# Municipal Yield Curve

- Though still steep on a historical basis, the muni curve flattened during the first half as longer munis outperformed shorter munis.
  - The slope of the curve between five and fifteen years declined 63 bps to 153 bps.
  - The slope of the curve between ten and thirty years flattened 37 bps to 102 bps.
- Because the curve remains steep, investors who seek to extend maturity continue to be compensated in the form of yield pick-up and potential return from bond roll.
- Though it is highly unlikely that the Fed will raise the Fed Funds rate in 2014, we believe the recent flattening trend may continue as the economy improves.

**5-Year / 15-Year Curve**



**10-Year / 30-Year Curve**



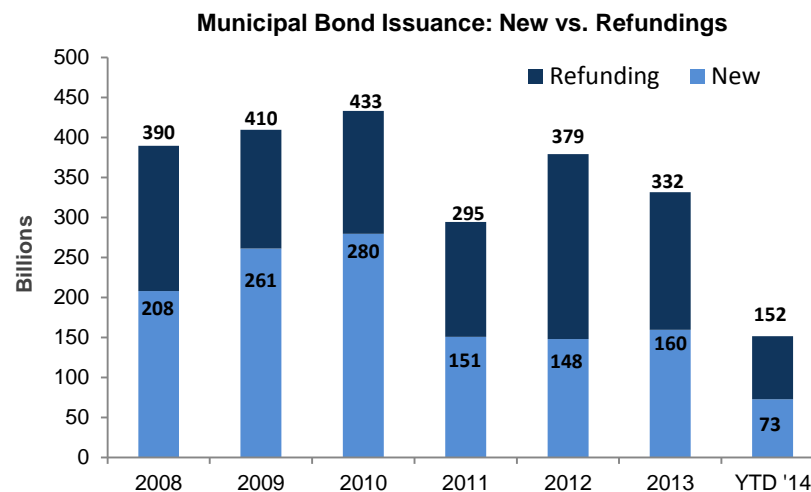
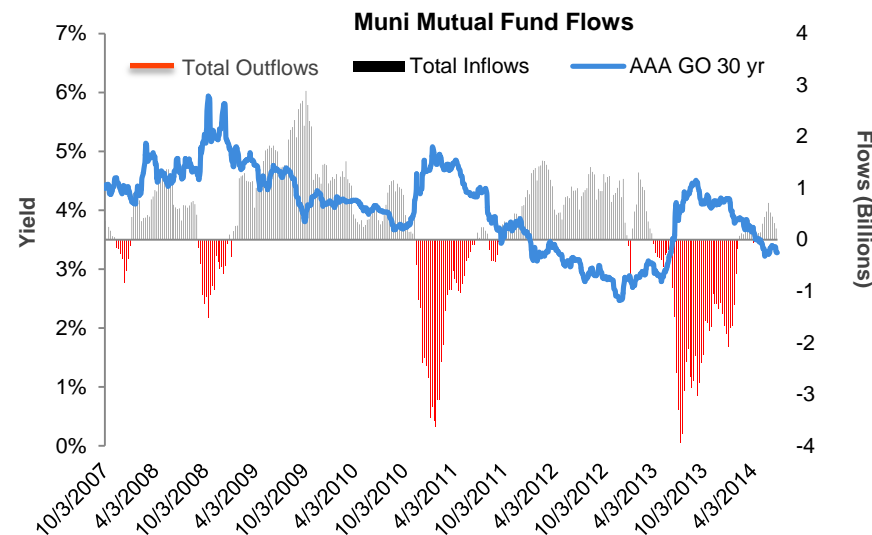
Source: Barclays Capital as of 6/30/14

Past performance is no guarantee of future results. It is not possible to invest directly in an index. See end of report for important additional information. Bond roll 4 is the natural appreciation of a bond as it ages by one year, assuming interest rates are unchanged.



# Flows and Issuance – Technicals Turn Positive

- Tapering fears and negative headlines (Detroit, Puerto Rico, Chicago) resulted in 32 consecutive weeks and over \$60 bn of outflows from tax-exempt mutual funds in 2013.
- During the first half of 2014, tax-exempt fund flows turned modestly positive. While far from robust, the inflows signaled a shift in retail sentiment toward the asset class and also provided much needed stability to the market.
- After declining 13% during 2013, new issuance continued to decline during the first half and was down 16% relative to the first half of 2013.
- While new money issuance was largely in line with the first half of 2013, refunding deals were down 27% compared to the last year.

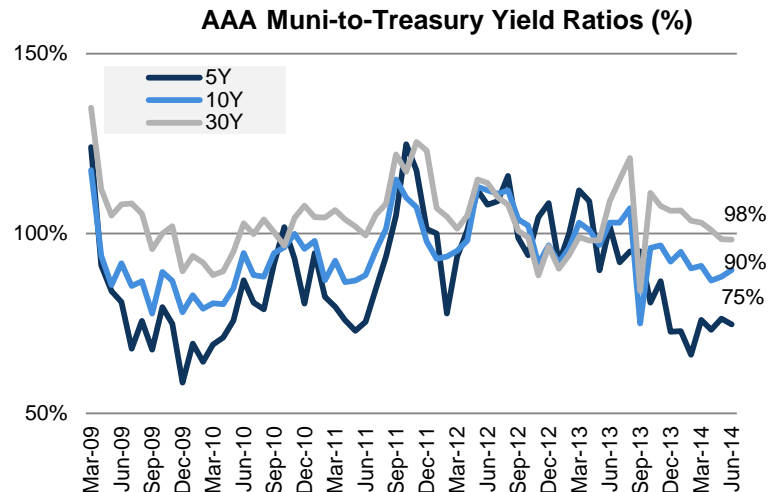


Source: Sifma, BofA Merrill Lynch Global Research, Thompson Reuters Municipal Market Data  
Date Range: October 2007 – June 2014. Flows are the 4-week moving average



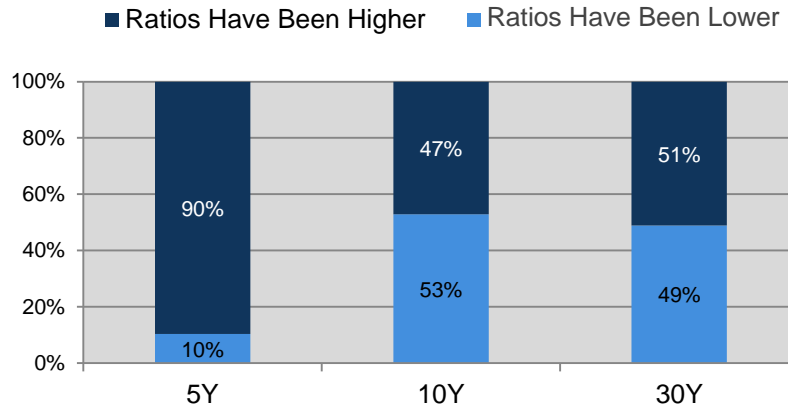
# Muni-to-Treasury Yield Ratios

- The 5 year muni/Treasury ratio cheapened during the half, however it remains rich relative to history.
- The 10 year muni/treasury ratio declined a touch as 10 year munis slightly outperformed 10 year treasuries.
- The 30 year muni/Treasury ratio richened to 98% as long munis outperformed long treasuries.



- The five year part of the curve continues to provide little value.
- Over the last 10 years, the 5 yr muni/Treasury ratio has been cheaper 90% of the time compared to the current level.
- In contrast, at current levels, the 10 year and 30 year ratios are at roughly fair value.

## How Attractive Are Muni/Treasury Ratios vs. 10 Year History



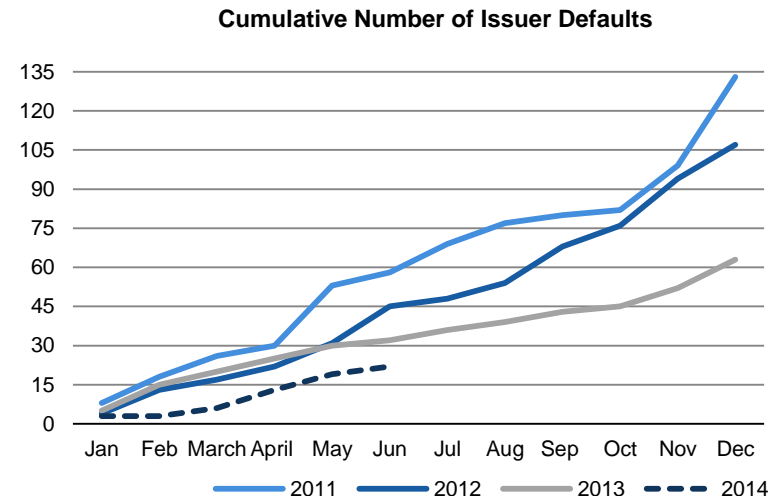
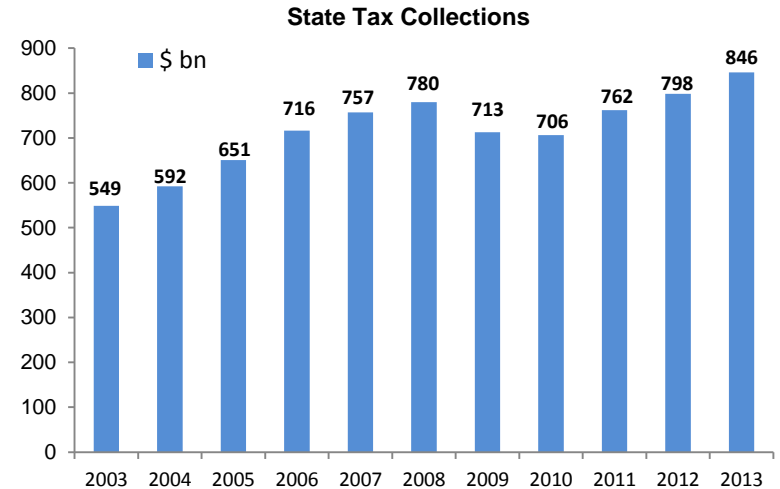
Source: Barclays Capital as of 6/30/14

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# State Tax Collections Up & Municipal Defaults Down

- According to the United States Census Bureau, State government tax collections totaled \$846 bn in fiscal year 2013, up 6.1 percent from 2012.
- The improvement in revenues was broad based as 48 states reported an increase in total tax collections.
- Individual income taxes, the largest source of revenues, were up 10.3% in 2013, while general sales and gross receipts increased 3.9%.
- Year-to-date, municipal defaults are down 33% as there have been 22 first time payment defaults compared to 33 at this point in 2013.<sup>1</sup>
- As the economy improves, this downward trend should continue as real estate stabilizes and the number vulnerable projects decreases.
- The increase in state tax collections along with the decline in defaults is beneficial for overall municipal credit quality, particularly in the high yield municipal space.



Source: Municipal Market Advisors: 6-18-14.



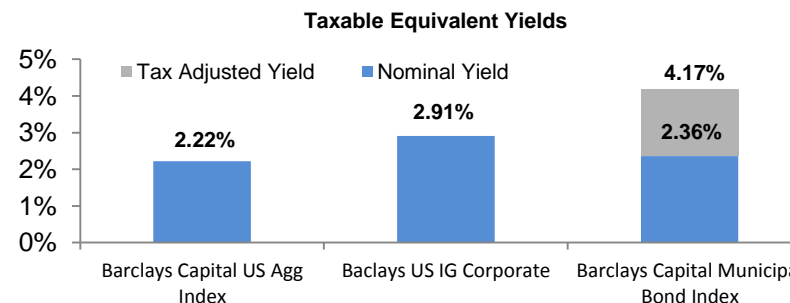
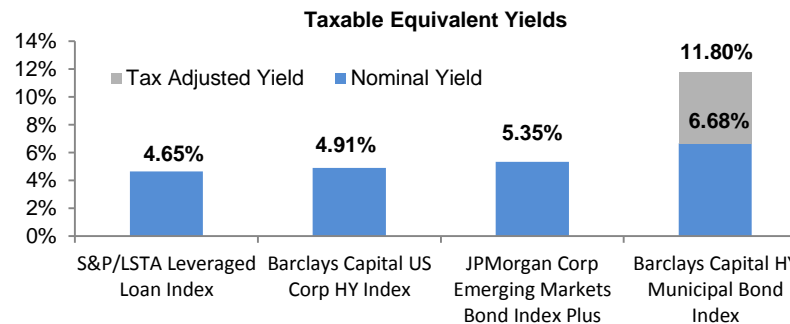


# Higher Tax Rates

- Tax rates for the highest income earners rose by nearly 30% in 2013 due to increases on ordinary and investment income taxes, the new health care surtax and reinstated limitations.
- The effective tax rate, including the impact of state income taxes, may push investors into the 50% tax bracket range.

Maximum Federal Tax Rate	2012 Rate	2013 Rate	
Compensation (Wage) Income	35%	41.95%	(39.6% tax + 1.45% Medicare tax + 0.9% health care reform surtax)
Qualified Dividends	15%	23.8%	(20% tax + 3.8% health care reform surtax)
Long-Term Capital Gains	15%	23.8%	(20% tax + 3.8% health care reform surtax)
Taxable Bond Interest	35%	43.4%	(39.6% + 3.8% health care reform surtax)
Nonqualifying Dividends	35%	43.4%	(39.6% + 3.8% health care reform surtax)
Short-Term Capital Gains	35%	43.4%	(39.6% + 3.8% health care reform surtax)

- Tax-exempt income from municipal bonds may have become more attractive to investors as a result of the increased tax rates.
- As of quarter end, the Barclays Muni Index yielded 2.36%. With the new maximum rate of 43.4%, which includes the Medicare surtax, the taxable-equivalent yield jumps to 4.17%.



Source: Barclays Capital as of 6/30/14

Source: Tax Policy Center. This table is for illustrative purposes only and uses the highest current applicable federal tax rates plus new 3.8% health care tax where

8 applicable.

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# Municipal Market Outlook

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- Market technicals should remain supportive as the improving demand/low supply environment is likely to persist.
- Municipal yields remain approximately 80 bps higher than lowest levels reached in 2012.
- Yield curve is still steep relative to history.
- Municipal valuations relative to Treasuries are not stretched.
- Defaults should continue to be isolated as the economy recovers and state tax receipts improve.
- Higher tax rates make municipals more attractive on a taxable equivalent basis.
- Key risks to remain aware of include an unanticipated spike in supply, headline risk and potential volatility in the treasury market.



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# Investing with a Leader in Municipal Bonds

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- **Eaton Vance is a premier municipal bond manager**
  - Among the largest and deepest municipal investment teams in the U.S.
  - 28 dedicated municipal investment professionals\*
  - Consistent, bottom-up investment process and proven track record
  - Marketplace significance: \$25.0 billion in municipal bond strategies\*
  
- **One of the broadest selections of muni solutions**
  - Mutual funds, closed-end funds and separate accounts
  - Customizable solutions engineered for special investment situations
  
- **Legacy of managing for tax-exempt income and total return**



# Eaton Vance Municipal Income Investment Team

## Investment Team with Extensive Experience

### Municipal Bond Team

<b>Team Leadership</b>				
<b>Cynthia Clemson</b> <i>Co-Director of Municipal Investments</i> <i>Senior Portfolio Manager</i> 28 Yrs Experience (28 with EV)		<b>Craig Brandon, CFA</b> <i>Co-Director of Municipal Investments</i> <i>Senior Portfolio Manager</i> 19 Yrs Experience (15 with EV)		<b>Thomas Metzold, CFA</b> <i>Senior Portfolio Advisor</i> <i>Senior Portfolio Manager</i> 27 Yrs Experience (27 with EV)
<b>Portfolio Manager</b>				
<b>Adam Weigold, CFA</b> <i>Senior Portfolio Manager</i> 16 Yrs Experience (15 with EV)				
<b>Trading</b>			<b>Portfolio Associates and Assistants</b>	
<b>Deborah Trachtenberg</b> <i>Director of Municipal Trading</i> 39 Yrs Experience (16 with EV)	<b>Christopher Berry</b> <i>Senior Municipal Trader</i> 21 Yrs Experience (12 with EV)	<b>John Khodarahmi</b> <i>Senior Municipal Trader</i> 24 Yrs Experience (11 with EV)	<b>Chris Eustance, CFA</b> 8 Yrs Experience (6 with EV)	<b>Jessica Hemenway</b> 8 Yrs Experience (4 with EV)
<b>Simone Santiago</b> <i>Senior Trader</i> 16 Yrs Experience (15 with EV)			<b>Alexander Martland</b> 4 Yrs Experience (4 with EV)	<b>Jeff Sayman</b> <i>Portfolio Assistant</i> 1 Yr Experience (1 with EV)
<b>Institutional Portfolio Specialist</b>				
<b>Michael Sullivan, CFA</b> <i>Institutional Portfolio Manager</i> 14 Yrs Experience (<1with EV)				



# Eaton Vance Tax-Advantaged Bond Strategies Team

Investment Team with Extensive Experience

TABS Team			
<b>Jim Evans, CFA</b> <i>Director of Tax Advantaged Bond Strategies</i> 31 Yrs Experience (25 with EV)			
Institutional Portfolio Managers and Traders	Active TABS   Managed Municipals   Laddered Municipals		
	Separately Managed Account (SMA) Portfolio Managers		
<b>Brian Barney, CFA</b> <i>Portfolio Manager</i> 14 Yrs Experience (14 with EV)	<b>Joseph Davolio</b> <i>Portfolio Manager</i> 14 Yrs Experience (10 with EV)	<b>Lauren Kashmanian</b> <i>Portfolio Manager</i> 7 Yrs Experience (6 with EV)	<b>Issac Kuo, CFA, CPA</b> <i>Portfolio Manager</i> 11 Years Experience (4 with EV)
<b>Devin Cooch, CFA</b> <i>Portfolio Manager</i> 6 Yrs Experience (6 with EV)	<b>Nisha Patel, CFA</b> <i>Portfolio Manager</i> 10 Yrs Experience (9 with EV)	<b>Jonathon Rocafort</b> <i>Portfolio Manager</i> 13 Yrs Experience (11 with EV)	<b>Evan Rourke, CFA</b> <i>Portfolio Manager</i> 28 Yrs Experience (8 with EV)
<b>Chris Harshman, CFA</b> <i>Portfolio Manager</i> 12 Yrs Experience (6 with EV)	<b>Steve Wool</b> <i>Portfolio Manager</i> 32 Yrs Experience (<1 with EV)	<b>Michael Sullivan, CFA</b> <i>Institutional Portfolio Manager</i> 14 Yrs Experience (<1with EV)	



# Eaton Vance Municipal Credit Research Team

## Credit Research Team with Extensive Experience

### Municipal Credit Research Team

**Bill Delahunty, CFA**

*Director of Municipal Credit Research*  
Hospitals, Long Term Care, Corporate  
20 Yrs Experience (16 with EV)

**Lilly Scher**

*Senior Analyst*  
Hospitals, Education  
27 Yrs Experience (14 with EV)

**Leanne Parziale, CFA**

*Senior Analyst*  
Tobacco, Multi-Family Housing  
19 Yrs Experience (17 with EV)

**Marc Savaria**

*Senior Analyst*  
Education, General Obligations, Investor  
Owned Utilities  
18 Yrs Experience (3 with EV)

**Megan Poplowski**

*Senior Analyst*  
Hospitals, Education, Real Estate, Toll  
Roads, Bond Insurers  
18 Yrs Experience (6 with EV)

**Henry Hong, CFA**

*Senior Analyst*  
Airports, Corporate, Gaming, Real  
Estate, Public Power  
17 Yrs Experience (8 with EV)

**Trevor Smith**

*Senior Analyst*  
General Obligations, Special Tax,  
Puerto Rico, Ports  
8 Yrs Experience (4 with EV)

**Raya McAnern**

*Analyst*  
Financial Institutions,  
General Obligations  
14 Yrs Experience (6 with EV)

**Colin Shaw**

*Analyst*  
General Obligations, Essential Service  
Rev., Health Care  
6 Yrs Experience (5 with EV)

**Kate Santangelo, CFA**

*Analyst*  
Water & Sewer, General Obligations,  
Special Tax  
9 Yrs Experience (9 with EV)

**Brian Hassler, CFA**

*Analyst*  
Water & Sewer, General Obligations,  
Special Tax  
7 Yr Experience (7 with EV)

**Jonathan Souza**

*Associate Analyst*  
General Obligations, Housing, Dedicated  
Tax Bonds and Water & Sewer  
6 Yrs Experience (6 with EV)

**Caroline Fedora**

*Associate Analyst*  
General Obligations, Essential Service  
Rev., Special Tax  
4 Yrs Experience (3 with EV)

**Carl Thompson**

*Associate Analyst*  
General Obligations, Housing, Student  
Loans, Dedicated Tax Bonds  
and Water & Sewer  
3 Yrs Experience (3 with EV)

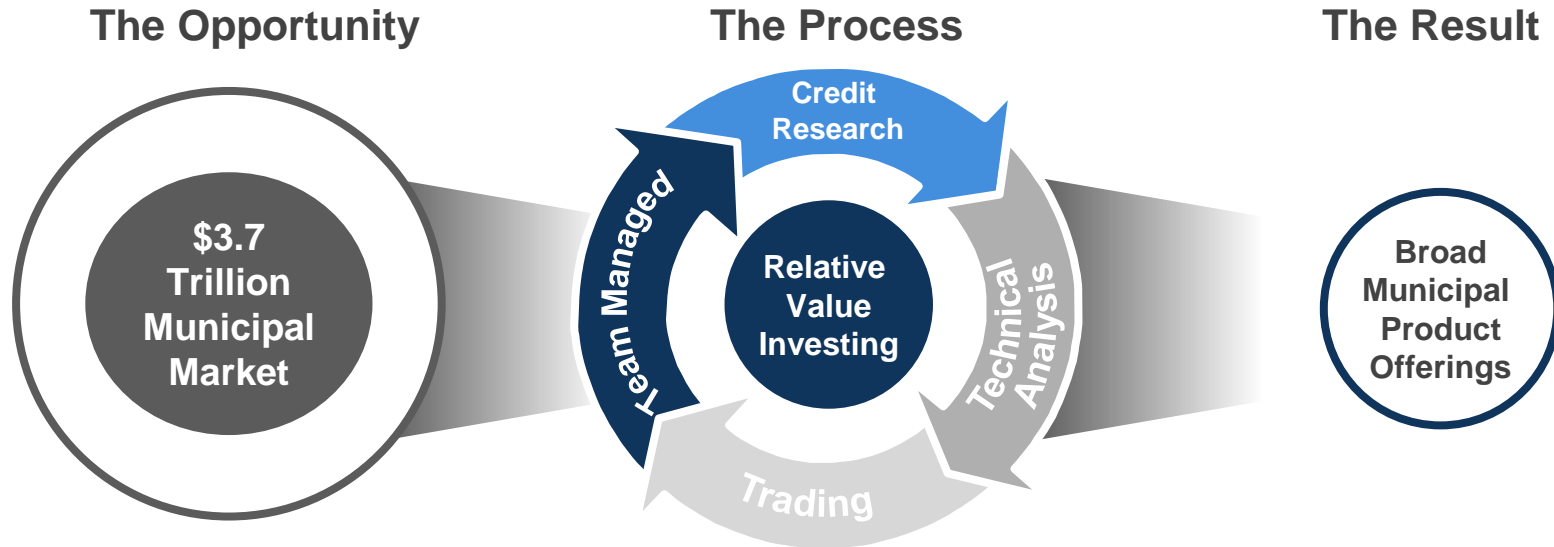
**Patrick Keogh**

*Research Associate*  
3 Yrs Experience (<1 with EV)



# Eaton Vance Municipal Investment Process

Team-oriented, research-based process with qualitative and quantitative overlays



Market Surveillance			Bottom-up Analysis and Selection		
<ul style="list-style-type: none"> <li>• Internal risk rating</li> <li>• Investment universe</li> </ul>	<ul style="list-style-type: none"> <li>• Issuer relative ranking</li> <li>• Issuer specific fundamental analysis</li> <li>• Relative value rankings within industries</li> </ul>	<ul style="list-style-type: none"> <li>• Market valuation</li> <li>• Relative industry valuations</li> <li>• Technical analysis</li> <li>• Determine liquidity and price trends</li> <li>• Fundamental trends</li> <li>• Bottom-up industry review</li> </ul>	<ul style="list-style-type: none"> <li>• Collaborative decision making</li> <li>• Portfolio managers</li> <li>• Credit analysts</li> <li>• Traders</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management</li> <li>• Product specific guidelines</li> <li>• Best portfolio within guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• Portfolio</li> <li>• Credit names</li> </ul>



# Important Information & Disclosure

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## INDEX DEFINITIONS:

**Barclays Capital Global Aggregate Ex-USD Index** is a broad-based measure of global investment grade fixed-rate debt investments, excluding USD-denominated debt.

**Barclays Capital Municipal Bond Index** is an unmanaged index of municipal bonds traded in the U.S.

**Barclays Capital U.S. Aggregate Index** is an unmanaged index of domestic investment-grade bonds, including corporate, government and mortgage-backed securities.

**Barclays Capital U.S. Corporate High Yield Index** measures USD-denominated, non-investment grade corporate securities.

**Barclays Capital U.S. Corporate Index** is an unmanaged index that measures the performance of investment-grade corporate securities within the Barclays Capital U.S. Aggregate Index.

**JPMorgan Emerging Markets Bond Index Plus (EMBI+)** is a market-cap weighted index that measures USD-denominated Brady Bonds, Eurobonds, and traded loans issued by sovereigns.

**S&P/LSTA Leveraged Loan Index** is an unmanaged index of the institutional leveraged loan market.

## Terms:

**Municipal-to-Treasury Yield Ratios** are relative value indicators that measure the richness or cheapness of Municipal bond yields to comparable maturity Treasury bond yields.

**Yield to Worst** is a measure which reflects the lowest potential yield earned on a bond without the issuer defaulting. The yield to worst is calculated by making worst-case scenario assumptions by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.





## Important Information & Disclosure

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Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, fees, expenses, taxes or leverage, as applicable.

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The principal risks involved with investing in the asset classes shown are interest-rate risk, credit risk and liquidity risk, with each asset class shown offering a distinct combination of these risks. Generally, considered along a spectrum of risks and return potential, U.S. Treasury securities (which are guaranteed as to the payment of principal and interest by the U.S. government) offer lower credit risk, higher levels of liquidity, higher interest-rate risk and lower return potential, whereas asset classes such as high-yield corporate bonds and emerging market bonds offer higher credit risk, lower levels of liquidity, lower interest-rate risk and higher return potential. Other asset classes shown carry different levels of each of these risk and return characteristics, and as a result generally fall varying degrees along the risk/return spectrum.

Costs and expenses associated with investing in asset classes shown will vary, sometimes substantially, depending upon specific investment vehicles chosen. No investment in the asset classes shown is insured or guaranteed, unless explicitly stated for a specific investment vehicle. Interest income earned on asset classes shown is subject to ordinary federal, state and local income taxes, excepting U.S. Treasury securities (exempt from state and local income taxes) and municipal securities (exempt from federal income taxes, with certain securities exempt from federal, state and local income taxes). In addition, federal and/or state capital gains taxes may apply to investments that are sold at a profit. Eaton Vance does not provide tax or legal advice. Prospective investors should consult with a tax or legal advisor before making any investment decision.

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