



# Eaton Vance International (CI) Short Duration Strategic Income Fund

## Market Update as of 30/06/2019

Global financial markets delivered a strong performance in the second quarter, adding to gains from earlier in the year. Key themes influencing asset prices included US-China trade talks, slowing global growth and increasingly dovish central banks.

As the quarter began, reports coming out of the US and China suggested that a trade deal might be imminent. Those hopes were dashed in May, however, when failure to reach an agreement prompted the US to raise tariffs on \$200 billion of Chinese goods and threaten new tariffs on \$300 billion of Chinese imports. While China quickly retaliated with its own tariff increase, President Trump and President Xi met at the late-June G20 summit and agreed to resume negotiations. In other geopolitical news, the US contemplated military action against Iran for shooting down an American drone.

The Federal Reserve held policy steady throughout the quarter but signaled that it would cut interest rates should trade tensions and weak global growth raise the risk of a more pronounced US slowdown. In response, markets priced in several rate cuts over the next year — expectations that sparked a strong rally in financial assets. Overseas, the European Central Bank not only pushed out its timetable for possible rate increases but hinted that fresh stimulus might be forthcoming.

Global bond yields fell significantly during the quarter, with the 10-year US Treasury trading below 2% for the first time since 2016. The decline in yields contributed to widespread gains across developed and emerging markets debt. Global equities were volatile but finished the period firmly in positive territory. The US dollar weakened modestly, as did the broad commodity market.

## Performance as of 30/06/2019

### % Average Annual Total Returns

	Q2	YTD	1 Yr.	3 Yrs.	5 Yrs.	10 yrs.
Class A Share at NAV	2.22	5.11	2.28	3.48	1.85	3.56
Class M Share at NAV	2.34	5.35	2.87	4.00	2.35	3.87
Benchmark	3.08	6.11	7.87	2.31	2.95	3.89

### Fund Facts

Class A Inception:	07/11/2005
Class M Inception:	26/11/1990
Class A Total Expense Ratio: <sup>2</sup>	1.88%
Class M Total Expense Ratio: <sup>2</sup>	1.38%

Benchmark: Bloomberg Barclays U.S. Aggregate Bond Index<sup>1</sup>.

*Source: Eaton Vance and RIMES. Past performance is no guarantee of future results. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Performance is for the stated time period only; due to market volatility, current performance may be lower or higher than quoted. Total return prior to the commencement of this class reflects the total return of a class of the U.S.-registered Fund, which prior to 10 December 2007 had invested in the same Portfolios. Prior return has not been adjusted to reflect the higher expenses of the offshore EVI (CI) Short Duration Strategic Income Fund. If adjusted for expenses, returns would be different. The performance inception date of the Fund is 26/11/1990. The inception date of Class A is 07/11/2005.*

Fund primarily invests in one or more affiliated investment companies (Portfolios) and may also invest directly. Unless otherwise noted, references to investments are to the aggregate holdings of the Fund and the Portfolios. Portfolio profile subject to change due to active management. Percentages may not total 100% due to rounding.

<sup>1</sup>Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of domestic investment-grade bonds, including corporate, government and mortgage-backed securities. Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, taxes or leverage, as applicable. It is not possible to invest directly in an index. Historical performance of the index illustrates market trends and does not represent the past or future performance of the fund.

<sup>2</sup>Source: Fund annual shareholder report dated 30/04/2019. Includes the Fund's share of the Portfolios' allocated expenses, other than the expenses of the EVI (Cayman Islands) Floating-Rate Income Portfolio (the "Cayman FRIP"). The Fund also bears indirectly the expenses of the Cayman FRIP to the extent of its allocation to the Cayman FRIP, but those expenses are not included in the Fund's expense ratio. For the year ended 30/04/2019, the total expense ratio of the Cayman FRIP was 0.65%.

## Performance Review and Outlook as of 30/06/2019

Eaton Vance Short Duration Strategic Income Fund underperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index (the Index), at net asset value during the quarter.

- Asset allocation decisions boosted overall Fund performance for the Fund during the period. The most notable contribution came from allocations to emerging markets debt, which benefitted from the combination of a dovish Fed, improving fundamentals, attractive valuations relative to most other areas of markets, and strong investor flows into the space. The non-investment grade areas of the US corporate credit markets – most notably for the Fund its allocation to floating-rate loans – were also a notable contributor as the rally that began in January continued through much of the quarter on the back of the Fed's dovish turn and the overall health of corporate balance sheets. The Global Macro strategy also contributed to performance as long positions in Serbia, Egypt, and Ukraine all notably boosted returns. The Fund's allocations to US agency mortgage-backed securities have tended to do well, mortgage prepayment speeds slow were the only detractor during the quarter and the fall in mortgage rates increased expectations for refinancing activity.
- Duration management was a detractor from relative performance during the period given the fall in yields as the Fund's near-zero US duration<sup>4</sup> is far from its benchmark's nearly 6 years. It was, however, a slight contributor to absolute performance as rate positions outside of the US performed well – most notably long positions in Serbia, Thailand, and Peru.
- Currency management produced notable boost to returns during the month. Notable gains came from long positions in the Egyptian pound, Japanese yen, and Sri Lankan rupee as well as a short on the South Korean won and relative value position that is long the Australian dollar / short the New Zealand dollar.
- We believe the Fed will maintain its dovish policy shift over the near term given our view that the US economy will continue to slow from elevated levels of 2018 towards its structural potential which is likely closer to 2%. We also think other major central banks are likely to continue to follow suit. In particular, European economies are struggling amid structural issues and political risks – risks that do not appear to be fully reflected in asset prices – and the ECB is likely to find additional ways to ease. In the absence of global recession, this should continue to provide a positive backdrop for risk markets.
- As a result, we continue to view US floating-rate loans and high-yield bonds as attractive and maintain notable allocations – skewed towards loans although we did trim exposure here based on strong performance year-to-date. Also within the US, select areas of the agency-MBS market possess attractive characteristics – particularly those with short duration – and to which we maintain notable exposures. And despite strong performance year-to-date, we continue to view emerging markets debt as being very attractive and maintain notable exposures there with a preference for the locally-denominated segment. While US interest rates may remain range-bound in the short term, we do not believe investors are being compensated to take that risk and our US duration remains near zero. On the currency side, we remain broadly constructive on foreign currencies and have a net long position consisting of economies that we believe are implementing policies supportive of growth. Overall, we continue to have the Fund positioned to benefit from stability in the US credit markets, to avoid US interest rate risk, and to include select long and short idiosyncratic country exposures around the world where we perceive value.

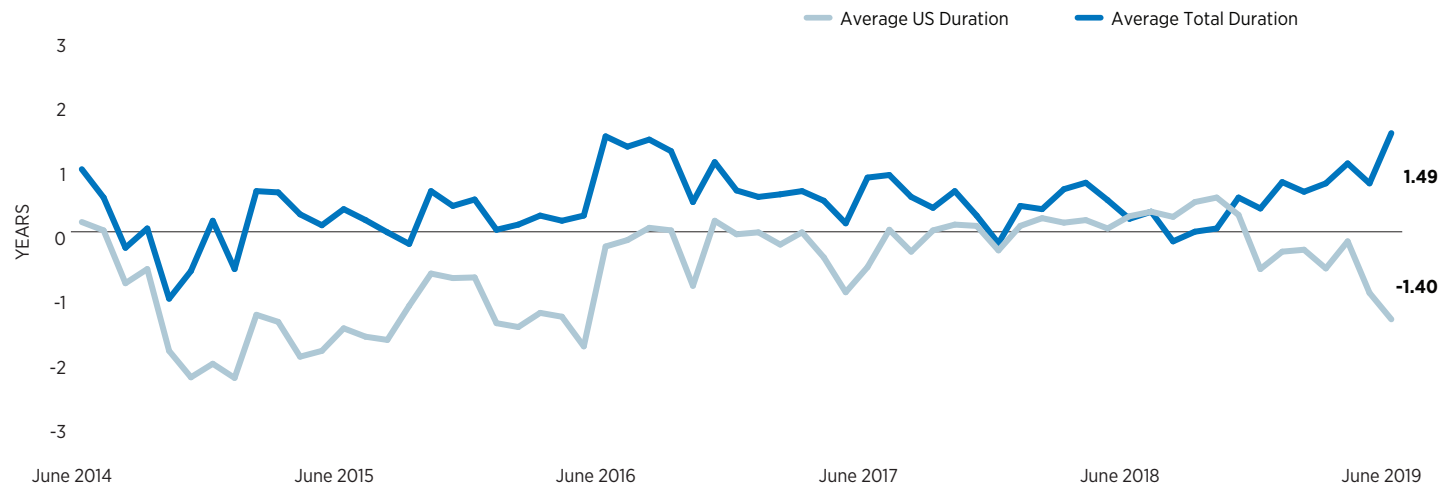
## Thoughts and Strategies as of 30/06/2019

Strategy	% Allocation <sup>3</sup>	Duration Contribution (yrs.)	% Return Contribution 3 Months	% Return Contribution 12 Months	Rationale
<b>Absolute Return</b>	<b>14.74</b>	<b>0.31</b>	<b>0.43</b>	<b>-0.18</b>	
Global Macro	14.74	0.31	0.43	-0.18	"Core" Fund holding; cash-plus strategy.
<b>US Corporate Credit</b>	<b>14.73</b>	<b>0.17</b>	<b>0.61</b>	<b>1.57</b>	
Floating-Rate Loans	11.90	0.00	0.27	0.81	US economy continues to improve gradually; current spreads appear reasonable.
High-Yield Corporate Bonds	2.83	0.17	0.33	0.76	
<b>Currency</b>	<b>5.93</b>	<b>0.24</b>	<b>0.39</b>	<b>0.47</b>	
Currency Instruments	5.93	0.24	0.39	0.47	Select long positions in emerging and frontier markets vs. USD and EUR.
<b>Non-US Bonds</b>	<b>28.28</b>	<b>2.71</b>	<b>1.38</b>	<b>2.45</b>	
Emerging-Markets Bonds	15.40	1.93	1.03	1.80	Select EM remain attractive.
Inflation-Linked Bonds	12.88	0.78	0.34	0.65	Select opportunities in sovereign inflation-linked bonds where inflation expectations have overshot to downside.
<b>Mortgage-Backed Securities</b>	<b>23.35</b>	<b>-2.24</b>	<b>-0.13</b>	<b>0.59</b>	
US Agency MBS	22.04	-2.31	-0.19	0.37	Focus on MBS that may benefit from higher interest rates and slowing prepayments.
Commercial MBS	1.31	0.06	0.06	0.22	Spreads on CMBS remain wide relative to other areas of credit markets.
<b>Other</b>	<b>4.25</b>	<b>0.30</b>	<b>0.15</b>	<b>-0.30</b>	
US Inflation-Linked Bonds	0.04	0.01	-0.06	-0.08	Market underpricing forward-looking US inflation.
Other Net Assets	4.21	0.29	0.21	-0.22	Primarily short US Treasury futures to manage duration.
<b>Cash &amp; Cash Equivalents</b>	<b>8.73</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	
<b>Total</b>	<b>100.00</b>	<b>1.49</b>	<b>2.41</b>	<b>3.27</b>	

<sup>3</sup>Percent of total net assets. Portfolio profile subject to change due to active management. Percentages may not total 100% due to rounding. Fund primarily invests in one or more affiliated investment companies (Portfolios) and may also invest directly. Unless otherwise noted, references to investments are to the aggregate holdings of the Fund, including its pro rata share of each Portfolio or Fund in which it invests. Other net assets represent other assets less liabilities and includes any investment type that represents less than 1% of net assets. Any securities sold short will be subtracted from that corresponding asset. This information presents a summary of Eaton Vance's general views on a subset of sectors the Fund managers consider during the investment process as of the date shown. The views and opinions herein are provided for informational purposes only, are as of the date stated above and are subject to change at any time without notice based on market, political, general economic and other conditions. It should not be relied upon as the basis for your investment decisions. There is no guarantee that any of these investment strategies have been or will be profitable.

Eaton Vance International (Cayman Islands) Funds may not be offered or sold to U.S. residents or citizens. The Fund is not offered for sale or sold in the United States, its territories or possessions.

## Duration Management Over Time



US duration measures the Fund's average exposure to changes in yields only within the United States. Total duration measures the Fund's average exposure to changes in yields across all countries it is invested in, including the US.

**About Risk:** The value of investments held by the Fund may increase or decrease in response to economic, and financial events (whether real, expected or perceived) in the US and global markets. Investments in debt instruments may be affected by changes in the creditworthiness of the issuer and are subject to the risk of non-payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. Investments rated below investment grade (sometimes referred to as junk) are typically subject to greater price volatility and illiquidity than higher rated investments. Loans are traded in a private, unregulated inter-dealer or inter-bank resale market and are generally subject to contractual restrictions that must be satisfied before a loan can be bought or sold. These restrictions may impede the Fund's ability to buy or sell loans (thus affecting their liquidity) and may negatively impact the transaction price. It may take longer than seven days for transactions in loans to settle. Due to the possibility of an extended loan settlement process, the Fund may hold cash, sell investments or temporarily borrow from banks or other lenders to meet short-term liquidity needs. Loans may be structured such that they are not securities under securities law, and in the event of fraud or misrepresentation by a borrower, lenders may not have the protection of the anti-fraud provisions of the federal securities laws. Loans are also subject to risks associated with other types of income investments. As interest rates rise, the value of certain income investments is likely to decline. Mortgage- and asset-backed securities are subject to credit, interest rate, prepayment and extension risk. Investments in foreign instruments or currencies can involve greater risk and volatility than US investments because of adverse market, economic, political, regulatory, geopolitical, currency exchange rates or other conditions. In emerging countries, these risks may be more significant. The Fund's exposure to derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other investments. Derivatives instruments can be highly volatile, result in leverage (which can increase both the risk and return potential of the Fund), and involve risks in addition to the risks of the underlying instrument on which the derivative is based, such as counterparty, correlation and liquidity risk. If a counterparty is unable to honor its commitments, the value of Fund shares may decline and/or the Fund could experience delays in the return of collateral or other assets held by the counterparty. The value of commodities investments will generally be affected by overall market movements and factors specific to a particular industry or commodity, including weather, embargoes, tariffs, or health, political, international and regulatory developments. Because the Fund may invest significantly in a particular geographic region or country, value of Fund shares may fluctuate more than a fund with less exposure to such areas. A nondiversified fund may be subject to greater risk by investing in a smaller number of investments than a diversified fund. No fund is a complete investment programme and you may lose money investing in a fund. The Fund may engage in other investment practices that may involve additional risks and you should review the Fund prospectus for a complete description.

The views expressed in this report are those of portfolio manager(s) and are current as of the end of the period noted at the top of the page. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. This commentary may contain statements that are not historical facts, referred to as "forward-looking statements." The Fund's actual future results may differ significantly from those stated in any forward-looking statement, depending on factors such as changes in securities or financial markets or general economic conditions, the volume of sales and purchases of Fund shares, the continuation of investment advisory, administrative and service contracts, and other risks.

**Before investing, investors should consider carefully the investment objective, risks, charges and expenses of a mutual fund. This and other important information is contained in the prospectus, which can be obtained from a financial advisor. Prospective investors should read the prospectus carefully before investing.**

This Document does not constitute an offer or solicitation to invest in the Fund. Eaton Vance International (Cayman Islands) Funds Ltd. (the "Company") offers several portfolios (each a "Fund" and together the "Funds"). The Funds are distributed by Eaton Vance Distributors, Inc. Two International Place, Boston, MA 02110, and may employ Eaton Vance Management (International) Limited, as a sub-distributor. Eaton Vance Management (International) Limited is authorised and regulated in the United Kingdom by the Financial Conduct Authority. No subscriptions can be accepted on the basis of this sales literature. The distribution of this document and the prospectus and the offering or purchase of shares is restricted in many jurisdictions. This document may not be treated as constituting an invitation to subscribe for shares of a Fund in any jurisdiction. Subscriptions for shares in a Fund will only be accepted on the basis of the information contained in the prospectus and only by investors allowed to invest by the law of the jurisdiction in which they reside. None of the Funds have been or will be registered under the US Securities Act of 1933, as amended (the "Securities Act"), and none of such shares may be offered, sold, transferred or delivered, directly or indirectly, in the United States or to US residents or citizens. None of the Funds have been or will be registered as an investment company under the US Investment Company Act of 1940, as amended (the "1940 Act").

\*Securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations.

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