

# Eaton Vance Large-Cap Value

## A Word on the Markets

Stocks see-sawed during the second quarter of 2019, sustaining sharp losses before rebounding to finish the period with modest gains.

In the U.S. the escalating trade war with China over President Trump's import tariffs drove equity markets lower in May, before easing tensions helped stocks rebound in June. A truce between the two countries in the final days of the period gave stocks further impetus.

Key economic indicators were mixed during the three-month period. While the nation's unemployment rate remained at multi-year lows, job creation decelerated sharply in May. Other indicators such as auto sales, construction spending and manufacturing also weakened in the period.

The U.S. Federal Reserve ("Fed") held interest rates steady in the second quarter despite pressure from the Trump administration for a rate cut. But the Fed held out the possibility of lower rates if economic indicators weaken further.

Global markets were also volatile during the period in response to U.S.-China trade tensions as well as signs of an economic slowdown. In Europe, markets faced the added uncertainty of Brexit, the United Kingdom's pending October 31 exit from the European Union. A manufacturing downturn in the U.K. worsened in June, with a key gauge falling to a six-year low. Global energy demand remained weak in the quarter, prompting OPEC to extend crude oil production cuts in hopes of spurring higher prices.

Stock-market volatility during the second quarter left most major indexes with low single-digit gains for the three-month period. In the U.S., the Dow-Jones Industrial Average<sup>1</sup> advanced 3.21%, while the broader S&P 500<sup>®</sup> Index rose 4.30%. The technology-laden NASDAQ Index gained 3.58% in the period. Globally, the MSCI EAFE Index advanced 3.68%. Large-cap stocks outperformed their small-cap counterparts during the quarter. In terms of investing style, growth stocks topped value stocks in both the large-cap and small-cap categories.

## Key Drivers of Performance

Eaton Vance Large-Cap Value Managed Account Master Composite (the Composite) outperformed its benchmark, the Russell 1000<sup>®</sup> Value Index (the Index), for the quarter ended June 30, 2019.

- The Composite's outperformance versus the Index was primarily the result of strong stock selection. Sector allocation had a modest positive impact during the quarter.
- Among U.S. large-cap equities, value stocks underperformed growth stocks during the quarter. Within the Value style (represented by the Russell 1000<sup>®</sup> Value Index) high quality tiers produced better results than low quality tiers over the course of the quarter as measured by Standard & Poor's.
- Ten of the eleven economic sectors within the Index provided positive returns during the quarter. The best returns stemmed from the financials, industrials and communication services sectors. Energy was the only sector to produce a negative return during the period.

## Contributors

Stock selection was positive in seven of the 11 sectors in which the Composite was invested. Stock selection gains were greatest within information technology, financials and consumer staples. Stock picking in the utilities, energy and real estate sectors also meaningfully aided return comparisons during the period.

- At the individual stock level, the largest contributor to Composite returns was a position in a leading digital telecommunications company. Shares of the stock jumped during the quarter on news of a settlement agreement that was reached after a drawn out legal battle. The stock gave back some ground after a U.S. judge ruled unfavorably for the company in an antitrust case. Still, shares rebounded into the final days of the quarter.
- Among consumer names, shares of a media and entertainment group buoyed returns. The company continues to post solid financial results in a tumultuous environment, benefiting from success across its various business lines. The launch of a much anticipated streaming service is also drawing investor attention.
- Another top contributor to returns was a position in a leading manufacturer of flow control equipment such as vacuum systems, bottle blowers, pump and air and gas compressors across the energy, industrial and medical industries. Shares of the stock ascended during the quarter on the heels of strong earnings that outpaced consensus estimates. The company also announced the acquisition of a competitor's industrial business.
- Elsewhere, an IT services company that provides services to the U.S. government and a large multi-line insurance company rounded out the top contributors.

<sup>1</sup>Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. S&P 500<sup>®</sup> Index is an unmanaged index of large-cap stocks commonly used as a measure of U.S. stock market performance. S&P Dow Jones Indices are a product of S&P Dow Jones Indices LLC ("S&P DJI") and have been licensed for use. S&P<sup>®</sup> and S&P 500<sup>®</sup> are registered trademarks of S&P DJI; Dow Jones<sup>®</sup> is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); S&P DJI, Dow Jones and their respective affiliates do not sponsor, endorse, sell or promote the Fund, will not have any liability with respect thereto and do not have any liability for any errors, omissions, or interruptions of the S&P Dow Jones Indices. NASDAQ Composite Index is a market capitalization weighted index of all domestic and international securities listed on NASDAQ. MSCI World Index is an unmanaged index of equity securities in the developed markets. MSCI EAFE Index is an unmanaged index of equities in the developed markets, excluding the U.S. and Canada. MSCI Emerging Markets Index is an unmanaged index of emerging markets common stocks. Source: MSCI. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder. 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 strategy.

## Detractors

On a stock selection basis, the health care, industrials and materials were the three areas to notably detract from performance during the period.

- At the stock level, a large engineering-and-construction firm was the biggest detractor during the period. Shares of the stock suffered during the quarter, declining after announcing weak earnings, lower earnings expectations and the resignation of its CEO and chairman. The company took charges on cost overruns for select projects, dampening results.
- Another industrial that struggled during the period was a manufacturer of residential and commercial water heating and water treatment equipment held in the portfolio. With a large percentage of revenue derived from China, shares have been weak given ongoing trade tensions and soft demand from the Chinese consumer. A negative research report published during the period compounded the underperformance.
- While stock selection in energy was positive overall, the portfolio's investment in a leading oil conglomerate dragged on performance results during the quarter. While oil stocks underperformed broadly, investors were worried about the company's capital expenditures and the potential to make an aggressive acquisition in the current environment.
- Other meaningful detractors from relative performance included a position in a telecommunications giant as well as a position in a luxury goods and jewelry maker.

## Current Outlook

While U.S. equity markets finished the second quarter meaningfully higher than where they began it, they took an uneven path to arrive at their destination. After a strong April, trade worries took center stage in May with the S&P 500® falling 6.4%. Markets recovered in June as the outlook for a trade deal improved and the Fed indicated that rate cuts are likely in the months ahead.

Signs continue to point to both U.S. and Global economic performance waning as forecasts are showing downward revisions. On the bright side, U.S./China trade negotiations were revived at the G20. Still, the impact of the original \$200 billion in Tariffs will take its toll on GDP and corporate earnings. An accommodative Fed may help provide some ballast to markets by helping to offset slowing growth and spur confidence.

The upcoming earnings season will be telling. The narrative from companies has been somewhat positive, but we believe relying on better corporate profit performance in the back half of 2019 remains a tenuous situation owing to uneven global economic performance coupled with continued deterioration in geopolitics in markets such as Venezuela and Iran.

We believe there are a multitude of plausible scenarios and the range of outcome is wide from here on out. To that end, we are favoring a balanced portfolio profile from a positioning standpoint (i.e. a mix of defensives and cyclicals). Among economically sensitive sectors, we are focused on those that can outperform if growth accelerates or stays on a modest growth path. Among defensive areas, we are more cautious on expensive yield-sensitive sectors due to their financial leverage and muted revenue growth.

Greater macroeconomic uncertainty and volatility underpin the Value team's philosophy and process of building client portfolios through the selection of individual securities of companies that exhibit advantaged competitive positions, embrace financial discipline, and allocate capital to maximize shareholder returns. We continually survey the markets for opportunities to buy these equities at advantageous entry points magnifying return potential relative to risk assumed.

We believe this approach will serve our clients well throughout 2019 and beyond.

**Composite Report** Large-Cap Value Managed Account Master Composite as of 12/31/2018

Period	Gross returns	Net Returns	Benchmark returns	Number of accounts	Dispersion		Total composite assets \$(000)	Total firm assets \$(000)	Composite assets as % of firm assets	3-yr external dispersion	
					High	Low				Composite	Benchmark
2009	17.72	14.33	19.69	5763	20.94	13.03	1,745,643	129,168,540	1.35	—	—
2010	11.61	8.38	15.51	4699	13.87	8.47	1,823,897	150,907,196	1.21	—	—
2011	-2.58	-5.43	0.39	4365	1.38	-6.74	1,329,191	142,155,060	0.94	18.54	20.69
2012	16.38	13.03	17.51	3164	19.51	13.10	1,099,630	152,207,484	0.72	15.12	15.51
2013	30.67	26.94	32.53	2786	33.99	27.24	1,186,147	172,036,715	0.69	12.04	12.70
2014	12.55	9.30	13.45	1551	15.30	9.22	688,891	164,420,664	0.42	8.86	9.20
2015	-0.30	-3.21	-3.83	1195	2.25	-7.27	512,791	156,199,594	0.33	10.16	10.68
2016	10.41	7.21	17.34	769	14.36	8.67	332,436	166,832,375	0.20	10.04	10.77
2017	15.01	11.69	13.66	685	16.71	13.76	321,278	193,976,437	0.17	9.61	10.20
2018	-5.49	-8.27	-8.27	574	-4.48	-6.29	254,542	192,823,274	0.13	10.52	10.82

  

	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception**
Composite Gross	-5.49	-5.49	6.27	6.13	10.78	10.12	10.11
Composite Net	-8.27	-8.27	3.18	3.05	7.57	6.93	6.92
Benchmark	-8.27	-8.27	6.95	5.95	11.02	11.18	9.95

\*\*Inception Date: 01/01/1991

Eaton Vance Management (the Firm) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. The Firm has been independently verified for the period January 1, 1996 through June 30, 2018. A copy of the verification report is available upon request. Verification assesses whether (1) the Firm has complied with all composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation.

## Eaton Vance Management

### Notes to Schedule: Firm

**Organization:** Eaton Vance Management (EVM or the Company) is an SEC registered investment adviser with its headquarters located in Boston, Massachusetts. Since 1924, the Company has provided a full range of investment products to corporations, public agencies, labor unions, hospitals, charitable and educational organizations, individuals and various qualified investment plans. It supplies investment advisory services through several SEC registered investment advisers and a trust company - EVM, Boston Management and Research (BMR), Eaton Vance Investment Counsel (EVIC), Eaton Vance Trust Company (EVTC), Eaton Vance Management International Limited (EVMIL) and Eaton Vance Advisers International Ltd (EVAL). The Company is defined as all six entities operating under the Eaton Vance brand. Effective May 1, 2011, EVM's Real Estate Investment Group, a constituent of EVM, is operating as a separate division of EVM, and its assets are no longer represented in EVM's total assets under management.

**Performance Returns:** Unless otherwise stated, composite returns and market values are reported in U.S. dollars. All performance returns are presented as total returns, which include the reinvestment of all income and distributions. Returns for periods less than one year are not annualized. Information regarding policies for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.

**Composite Dispersion:** Annual internal return dispersion is represented by the highest and lowest returns of all portfolios within a composite. Internal dispersion is shown only for composites that held at least six accounts for the full year. Internal dispersion is shown as not applicable, "N/A", for composites that held five or fewer accounts for the full year. External composite and benchmark dispersion are shown to demonstrate the variability of returns over time, and is represented by the three-year ex-post standard deviation of monthly returns. External composite and benchmark dispersion are shown as not applicable, "N/A", for composites with less than 3 years of monthly history, as of the most current quarter-end. External dispersion is not shown for composite inception through December 2010, as it is not required for periods prior to 2011.

**Other Matters:** A complete list of all composites maintained by EVM with descriptions and related performance results for each is available upon request. To receive a complete list and description of the Company's composites and/or a presentation that adheres to the GIPS®, contact the Performance Department at (800) 225-6265 ext. 26733 or write to Eaton Vance Management, Two International Place, Boston, MA 02110, Attention GIPS Performance Department, 3rd floor.

## Eaton Vance Management Large-Cap Value Managed Account Master Composite (SMA 26)

### Notes to Schedule

**Composite Definition:** The investment objective of this style is to seek above-average total return from equity investments made primarily in large-cap, dividend-paying value stocks, which, at the time of purchase, are common stocks of companies that are considered inexpensive or undervalued relative to the overall stock market. Large-cap companies are considered to be those having market capitalizations equal to or greater than the median capitalization of companies included in the Russell 1000® Value Index. Up to 25% of total assets may be invested in foreign securities, and up to 20% of net assets may be invested in convertible debt securities, including securities rated below investment-grade. All fully discretionary, wrap-fee paying, sub-advisory and program-sponsored advisory accounts are eligible for inclusion in the Composite.

An account is included in the Composite at the beginning of the first full month under management, and closed accounts are included through the last full month under management. No selective periods of performance have been used.

**Benchmark:** The Composite's benchmark is the Russell 1000® Value Index. It is an unmanaged index of approximately 1,000 U.S. large-cap value stocks.

**Gross and Net Returns:** Composite Gross returns are presented as supplemental information and do not include any fees, expenses or transaction costs. All fees for accounts in this composite are available from the managed account sponsor's form ADV Part II.

Composite net returns are after the maximum managed-account fee of 3.00%. This fee may include any combination of management, transaction, custody and other administrative fees.

**Notes to Composite:** The creation date of this composite is December 2006, and the inception date is January 1991. Effective September 1, 2004, the Composite was redefined to include only wrap-fee paying, sub-advisory and program-sponsored advisory accounts. Performance up to that time is that of the Company's institutional Large-Cap Value Master Composite. There has been no change in investment objective or management style. Effective August 1, 2009, a participating program sponsor with a significant number of accounts became solely responsible for all model re-balancing and trading activity. As a result, these accounts became ineligible for composite inclusion. Clients or prospective clients should not assume that they will have an investment experience similar to that indicated by past performance results, as shown on the Schedule.

The views expressed in this commentary are those of Eaton Vance Large-Cap Value Investment Team and are current only through June 30, 2019, and are not intended as investment advice or a recommendation to purchase or sell specific securities. These opinions may change at any time without notice, and there is no assurance that any securities discussed herein will remain in an account at the time you receive this report. While every effort has been made to verify the information contained herein, we make no representations as to its accuracy. It should not be assumed that any of the securities or transactions listed were or will be profitable. Actual portfolio holdings will vary for each client, and there is no guarantee that a particular client's account will hold any or all of the securities mentioned. Investing involves risk, including possible loss of principal. This Commentary may contain statements that are not historical facts, referred to as forward-looking statements. Future results may differ significantly from those stated in forward-looking statements, depending on factors such as changes in securities or financial markets or general economic conditions. Past performance does not predict future results.

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Eaton Vance provides advanced investment strategies and wealth management solutions to forward-thinking investors around the world. Through principal investment affiliates Eaton Vance Management, Parametric, Atlanta Capital, Hexavest and Calvert, the Company offers a diversity of investment approaches, encompassing bottom-up and top-down fundamental active management, responsible investing, systematic investing and customized implementation of client-specified portfolio exposures. Exemplary service, timely innovation and attractive returns across market cycles have been hallmarks of Eaton Vance since 1924. For more information, visit [eatonvance.com](http://eatonvance.com).

