Eaton Vance TABS Short-Term Municipal Bond Fund

A Word On The Markets

The U.S. municipal bond market experienced mixed results in the third quarter posting positive returns in July and August only to retreat in September. In aggregate, the Bloomberg Barclays Municipal Bond Index returned -0.15% for the three-month period, bringing year-to-date performance to -3.48%. High-yield municipal bonds outperformed driven largely by a continued rally in Puerto Rico bonds off of extreme lows. The municipal bond yield increased and the curve flattened over the period as a result of an additional increase in the federal funds rate, strong domestic economic data and a slight easing in global trade tensions.

Municipal bond mutual fund flows were positive in the third quarter. According to the Investment Company Institute (ICI) as of September 19, inflows into mutual bond funds totaled $5.7 billion, with an average weekly flow of +$475 million. Municipal bond issuance totaled $82 billion over the quarter bringing year-to-date issuance to $247 billion. Year-to-date issuance remains 16% below 2017 levels.

Following a muted second quarter, the municipal curve flattened as two-year, five-year, 10-year and 30-year yields increased by 33, 21, 12 and 25 basis points respectively. The U.S. Treasury (UST) market saw similar yield increases with two-year UST yields up 30 basis points, five-year UST yields up 21 basis points, 10-year yields up 20 basis points and 30-year yields up 21 basis points. Muni-to-Treasury ratios increased (cheapened) in the two-year, five-year and 30-year parts of the curve and ratios currently stand at 70%, 75% and 100%, respectively. Despite the flattening trend during the quarter, the municipal curve is still much steeper than the Treasury curve with 122 basis points between 30-year and two-year yields, compared to only 36 basis points for the UST curve.

High-yield municipal bonds continued to outperform compared to investment-grade bonds over the third quarter. BBB-rated bonds were the best-performing segment of the investment-grade municipal bond index, returning 0.21%. AAA-rated municipal bonds were the worst-performing credit segment returning -0.30% during the period. The Bloomberg Barclays High Yield Index was up 0.76% bringing year-to-date performance to 4.45%. The Puerto Rico Municipal bond index was up 8.68% in the third quarter as the COFINA debt restructuring process continued to make progress.

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Performance Summary

TABS Short Term Municipal Bond Fund (the Fund) performed in line with its benchmark, the Barclays 5-Year Municipal Bond Index (the Index), at net asset value during the quarter.

- The Fund’s overall duration aided performance against the Index.
- The Fund’s relative performance was aided by active trading elements over the quarter.
- The Fund’s credit quality positioning diminished relative performance.

% Average Annual Total Returns As of (09/30/2018)

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<thead>
<tr>
<th></th>
<th>Q3</th>
<th>YTD</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
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<tbody>
<tr>
<td>A Shares at NAV</td>
<td>-0.31</td>
<td>-0.84</td>
<td>-1.17</td>
<td>0.28</td>
<td>0.99</td>
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<tr>
<td>A Shares with Max. 2.25% Sales Charge</td>
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<tr>
<td>Return After Taxes on Dist w/Max Sales Charge</td>
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<td>-0.64</td>
<td>-0.64</td>
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<tr>
<td>Return After Taxes on Dist &amp; Sales of Fund Shares w/Max Sales Charge</td>
<td>-1.53</td>
<td>0.20</td>
<td>0.61</td>
<td>3.37</td>
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<td>Benchmark</td>
<td>-0.20</td>
<td>0.10</td>
<td>-0.60</td>
<td>1.16</td>
<td>1.85</td>
<td>3.37</td>
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Index Definitions:
The Bloomberg Barclays Municipal Bond Index is an unmanaged index of municipal bonds traded in the U.S. The Bloomberg Barclays Municipal High Yield Puerto Rico Index is an unmanaged sub index of broad High Yield municipal index and is composed of municipal bonds from Puerto Rico that are traded in the U.S. Bloomberg Barclays 5 Year Municipal Bond Index is an unmanaged index of municipal bonds traded in the U.S. with maturities ranging from 4-6 years. Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, 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.

Portfolio profile subject to change due to active management. Percentages may not total 100% due to rounding.

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Explore our full spectrum of strategies at eatonvance.com.
Factors contributing to the Fund’s relative performance compared to the Index during the quarter:

- The Fund’s duration positioning bolstered relative performance. The Fund’s duration was approximately 0.5 years shorter than the Index, which aided relative performance over the quarter as interest rates increased.
- Relative value trading was a positive factor on performance relative to the Index. Strong retail demand and a favorable technical environment aided the Fund’s performance.

Detractors

Factors detracting from the Fund’s relative performance compared to the Index during the quarter:

- The Fund’s credit quality positioning detracted from performance versus the Index. The Fund had an overweight exposure to AAA-rated securities. Over the quarter, lower quality municipal bonds outperformed and the Fund’s relative performance was diminished.

Investment Outlook And Fund Positioning

Volatility in the fixed-income and equity markets has continued to make investors cautious. For municipals specifically, we see both positive tail winds and potential negative headwinds for the remainder of the year.

The favorable supply-demand dynamic witnessed over the last six months may fade as the market typically experiences a healthy new issuance calendar in the fourth quarter. Additionally, the strong seasonal reinvestment flows from maturing bonds and coupon payments is likely to subside, which may soften ratios and improve valuations.

Counterbalancing these potential headwinds is increased demand for municipal bonds from investors subject to higher state and local taxes. The Tax Cut and Jobs Acts limited taxpayer’s ability to deduct state and local taxes beyond a $10,000 cap, which has and may continue to increase demand for tax-advantaged investments. Additionally, higher yields are welcomed by fixed-income investors as they typically result in higher rates of future income and total return over longer time periods.

As the Federal Reserve continues its march toward interest-rate normalization, we will be watching for signs of higher inflation resulting from the currently tight labor market. While we do not expect interest rates to increase rapidly, we do envision a scenario where rates could climb modestly higher over the longer term.

Despite ongoing credit challenges for some high-profile issuers, municipal credit is stable overall. With credit spreads at historically tight levels, we believe discipline and seasoned professional oversight are critical.

From an overall portfolio perspective, municipals offer tax-free yield with lower risk, given the lack of correlation to other asset classes. With equity markets pushing new highs and the investment-grade corporate markets struggling to fend off rising U.S. interest rates, municipals may provide welcome balance to diversified portfolios.4

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 U.S. and global markets. There generally is limited public information about municipal issuers. As interest rates rise, the value of certain income investments is likely to decline. 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. No fund is a complete credit and income diversification tool and losses may occur. The value of an investment in the Fund may fluctuate (up or down) with all asset classes shown, sometimes substantially. All asset classes shown are subject to risks, including possible loss of principal invested. 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 timely payment of principal and interest) are considered the lowest risk, whereas U.S. high-yield corporate bonds offer the highest credit risk, lower levels of liquidity, lower interest-rate risk and higher return potential. Costs and expenses associated with investing in asset classes shown will vary, sometimes substantially, depending upon specific investment vehicles chosen. Interest income earned on asset classes shown is subject to ordinary federal, state and local income taxes, except U.S. Treasury securities (exempt from state and local income taxes) and municipal securities (exempt from federal income taxes, with certain securities exempt from 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.

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

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