



Date: September 30, 2014
To: City of Jacksonville Police & Pension Fund
From: Daniel J. Holmes
Subject: Review of Eaton Vance Management

Eaton Vance Management (“Eaton Vance”) is organized as a Massachusetts business trust and is registered as an investment adviser with the Securities Exchange Commission. Eaton Vance was created in 1979 by the merger of two Boston-based investment management companies - Eaton & Howard, Inc. (founded in 1924) and Vance Sanders & Company, Inc. (founded in 1934).

Alongside strong interest in bank loans by investors, Eaton Vance gathered a large amount of assets in a relatively short period of time, showing difficulty in managing such a large portfolio profitably. The Institutional Senior Loan Trust returned 3.4% since inception in 2013, underperformed the S&P/LSTA Leveraged Loan Index by 50 bps, and ranked in the 97th percentile in the peer universe. The manager lost 0.4% for the quarter, reducing the calendar year-to-date total return to 1.3% versus the index’s return of 2.1%.

Eaton Vance has consistently underperformed its peers while growing assets under management beyond optimal levels. The product’s assets increased from approximately \$29 billion in 2013 to \$45 billion today, representing approximately 5.0% of the loan market. Holdings have increased from just under 400 in 2011 to nearly 600 currently.

Due to concerns over its growing size and ability to outperform consistently, Summit Strategies Group downgraded Eaton Vance from Top Tier to Second Tier in 3Q2013. The manager was entirely removed from the recommended list in 2Q2014.

Summit therefore recommends redemption from Eaton Vance, but maintain an allocation to public bank loans as they provide a yield premium to traditional fixed income. Additionally, the floating rate feature of the asset class will help protect against increases in short-term interest rates.