

EATON VANCE CORP  
Form 10-Q  
March 09, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**

For the quarterly period ended January 31, 2018

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-8100

**EATON VANCE CORP.**

*(Exact name of registrant as specified in its charter)*

Maryland 04-2718215  
*(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)*

Two International Place, Boston, Massachusetts 02110  
*(Address of principal executive offices) (zip code)*

(617) 482-8260  
*(Registrant's telephone number, including area code)*

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                                               |                                     |                           |                          |
|-----------------------------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer                       | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer                         | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
| (Do not check if a smaller reporting company) |                                     |                           |                          |
| Emerging growth company                       | <input type="checkbox"/>            |                           |                          |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| <u>Class:</u>                                   | <u>Outstanding as of January 31, 2018</u> |
|-------------------------------------------------|-------------------------------------------|
| Non-Voting Common Stock, \$0.00390625 par value | 120,070,801 shares                        |
| Voting Common Stock, \$0.00390625 par value     | 442,932 shares                            |



Eaton Vance Corp.

Form 10-Q

As of January 31, 2018 and for the

Three Month Period Ended January 31, 2018

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**Part I - Financial Information**

**Item 1. Consolidated Financial Statements**

**Eaton Vance Corp.**

**Consolidated Balance Sheets (unaudited)**

| (in thousands)                                                      | January 31,<br>2018 | October 31,<br>2017 |
|---------------------------------------------------------------------|---------------------|---------------------|
| Assets                                                              |                     |                     |
| Cash and cash equivalents                                           | \$533,316           | \$610,555           |
| Management fees and other receivables                               | 213,477             | 200,453             |
| Investments                                                         | 1,029,738           | 898,192             |
| Assets of consolidated collateralized loan obligation (CLO) entity: |                     |                     |
| Cash                                                                | 454                 | -                   |
| Bank loan investments                                               | 76,554              | 31,348              |
| Other assets                                                        | 5,183               | -                   |
| Deferred sales commissions                                          | 39,908              | 36,423              |
| Deferred income taxes                                               | 37,052              | 67,100              |
| Equipment and leasehold improvements, net                           | 49,692              | 48,989              |
| Intangible assets, net                                              | 87,573              | 89,812              |
| Goodwill                                                            | 259,681             | 259,681             |
| Loan to affiliate                                                   | 5,000               | 5,000               |
| Other assets                                                        | 59,381              | 83,348              |
| Total assets                                                        | \$2,397,009         | \$2,330,901         |

*See notes to Consolidated Financial Statements.*

**Eaton Vance Corp.****Consolidated Balance Sheets (unaudited) (continued)**

| (in thousands, except share data)                                        | January 31,<br>2018 | October 31,<br>2017 |
|--------------------------------------------------------------------------|---------------------|---------------------|
| Liabilities, Temporary Equity and Permanent Equity                       |                     |                     |
| Liabilities:                                                             |                     |                     |
| Accrued compensation                                                     | \$ 79,016           | \$ 207,330          |
| Accounts payable and accrued expenses                                    | 73,671              | 68,115              |
| Dividend payable                                                         | 44,411              | 44,634              |
| Debt                                                                     | 619,052             | 618,843             |
| Liabilities of consolidated CLO entity:                                  |                     |                     |
| Line of credit                                                           | 36,534              | 12,598              |
| Other liabilities                                                        | 25,283              | -                   |
| Other liabilities                                                        | 114,439             | 116,298             |
| Total liabilities                                                        | 992,406             | 1,067,818           |
| Commitments and contingencies (Note 17)                                  |                     |                     |
| Temporary Equity:                                                        |                     |                     |
| Redeemable non-controlling interests                                     | 304,449             | 250,823             |
| Permanent Equity:                                                        |                     |                     |
| Voting Common Stock, par value \$0.00390625 per share:                   |                     |                     |
| Authorized, 1,280,000 shares                                             | 2                   | 2                   |
| Issued and outstanding, 442,932 and 442,932 shares, respectively         |                     |                     |
| Non-Voting Common Stock, par value \$0.00390625 per share:               |                     |                     |
| Authorized, 190,720,000 shares                                           | 469                 | 461                 |
| Issued and outstanding, 120,070,801 and 118,077,872 shares, respectively |                     |                     |
| Additional paid-in capital                                               | 182,502             | 148,284             |
| Notes receivable from stock option exercises                             | (10,518 )           | (11,112 )           |
| Accumulated other comprehensive loss                                     | (34,694 )           | (47,474 )           |
| Retained earnings                                                        | 961,492             | 921,235             |
| Total Eaton Vance Corp. shareholders' equity                             | 1,099,253           | 1,011,396           |
| Non-redeemable non-controlling interests                                 | 901                 | 864                 |
| Total permanent equity                                                   | 1,100,154           | 1,012,260           |
| Total liabilities, temporary equity and permanent equity                 | \$ 2,397,009        | \$ 2,330,901        |

*See notes to Consolidated Financial Statements.*



**Eaton Vance Corp.****Consolidated Statements of Income (unaudited)**

| (in thousands, except per share data)                                     | Three Months Ended<br>January 31, |            |
|---------------------------------------------------------------------------|-----------------------------------|------------|
|                                                                           | 2018                              | 2017       |
| Revenue:                                                                  |                                   |            |
| Management fees                                                           | \$ 366,367                        | \$ 304,653 |
| Distribution and underwriter fees                                         | 20,493                            | 18,959     |
| Service fees                                                              | 30,844                            | 28,911     |
| Other revenue                                                             | 3,708                             | 2,436      |
| Total revenue                                                             | 421,412                           | 354,959    |
| Expenses:                                                                 |                                   |            |
| Compensation and related costs                                            | 155,048                           | 135,135    |
| Distribution expense                                                      | 35,640                            | 31,117     |
| Service fee expense                                                       | 28,562                            | 26,927     |
| Amortization of deferred sales commissions                                | 4,277                             | 3,854      |
| Fund-related expenses                                                     | 14,846                            | 10,875     |
| Other expenses                                                            | 47,239                            | 41,615     |
| Total expenses                                                            | 285,612                           | 249,523    |
| Operating income                                                          | 135,800                           | 105,436    |
| Non-operating income (expense):                                           |                                   |            |
| Gains and other investment income, net                                    | 2,598                             | 494        |
| Interest expense                                                          | (5,907 )                          | (7,347 )   |
| Other income (expense) of consolidated CLO entity:                        |                                   |            |
| Gains and other investment income, net                                    | 1,717                             | -          |
| Interest expense                                                          | (94 )                             | -          |
| Total non-operating expense                                               | (1,686 )                          | (6,853 )   |
| Income before income taxes and equity in net income of affiliates         | 134,114                           | 98,583     |
| Income taxes                                                              | (48,617 )                         | (36,748 )  |
| Equity in net income of affiliates, net of tax                            | 3,014                             | 2,506      |
| Net income                                                                | 88,511                            | 64,341     |
| Net income attributable to non-controlling and other beneficial interests | (10,455 )                         | (3,630 )   |
| Net income attributable to Eaton Vance Corp. shareholders                 | \$ 78,056                         | \$ 60,711  |
| Earnings per share:                                                       |                                   |            |
| Basic                                                                     | \$0.68                            | \$0.55     |
| Diluted                                                                   | \$0.63                            | \$0.53     |
| Weighted average shares outstanding:                                      |                                   |            |
| Basic                                                                     | 115,282                           | 110,267    |
| Diluted                                                                   | 123,941                           | 114,671    |
| Dividends declared per share                                              | \$0.31                            | \$0.28     |

*See notes to Consolidated Financial Statements.*





**Eaton Vance Corp.**

**Consolidated Statements of Comprehensive Income (unaudited)**

| (in thousands)                                                                                  | Three Months Ended<br>January 31, |           |
|-------------------------------------------------------------------------------------------------|-----------------------------------|-----------|
|                                                                                                 | 2018                              | 2017      |
| Net income                                                                                      | \$ 88,511                         | \$ 64,341 |
| Other comprehensive income (loss):                                                              |                                   |           |
| Amortization of net gains (losses) on cash flow hedges, net of tax                              | (25 )                             | 4         |
| Unrealized gains on available-for-sale investments and reclassification adjustments, net of tax | 720                               | 327       |
| Foreign currency translation adjustments, net of tax                                            | 12,085                            | 5,797     |
| Other comprehensive income, net of tax                                                          | 12,780                            | 6,128     |
| Total comprehensive income                                                                      | 101,291                           | 70,469    |
| Comprehensive income attributable to non-controlling and other beneficial interests             | (10,455 )                         | (3,630 )  |
| Total comprehensive income attributable to Eaton Vance Corp. shareholders                       | \$ 90,836                         | \$ 66,839 |

*See notes to Consolidated Financial Statements.*

## Eaton Vance Corp.

## Consolidated Statements of Shareholders' Equity (unaudited)

|                                                                                     | Permanent Equity |            |            |            |               |           |             | Temporary Equity |             |
|-------------------------------------------------------------------------------------|------------------|------------|------------|------------|---------------|-----------|-------------|------------------|-------------|
|                                                                                     |                  |            |            | Notes      | Accumulated   |           | Non-        | Redeemable       |             |
|                                                                                     | Voting           | Non-Voting | Additional | Receivable | Other         | Retained  | Redeemable  | Total            | Non-        |
| (in thousands)                                                                      | Common           | Common     | Paid-In    | from       | Comprehensive | Earnings  | Non-        | Permanent        | Controlling |
|                                                                                     | Stock            | Stock      | Capital    | Stock      | Income        |           | Controlling | Equity           | Interests   |
|                                                                                     |                  |            |            | Option     | (Loss)        |           | Interests   |                  |             |
|                                                                                     |                  |            |            | Exercises  |               |           |             |                  |             |
| Balance, November 1, 2017                                                           | \$2              | \$461      | \$148,284  | \$(11,112) | \$(47,474)    | \$921,235 | \$864       | \$1,012,260      | \$250,823   |
| Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-09) | -                | -          | 675        | -          | -             | (523 )    | -           | 152              | -           |
| Net income                                                                          | -                | -          | -          | -          | -             | 78,056    | 742         | 78,798           | 9,713       |
| Other comprehensive income                                                          | -                | -          | -          | -          | 12,780        | -         | -           | 12,780           | -           |
| Dividends declared (\$0.31 per share)                                               | -                | -          | -          | -          | -             | (37,276 ) | -           | (37,276 )        | -           |
| Issuance of Non-Voting Common Stock:                                                |                  |            |            |            |               |           |             |                  |             |
| On exercise of stock options                                                        | -                | 6          | 42,690     | (393 )     | -             | -         | -           | 42,303           | -           |
| Under employee stock purchase plans                                                 | -                | -          | 1,549      | -          | -             | -         | -           | 1,549            | -           |
| Under employee stock purchase incentive plan                                        | -                | -          | 427        | -          | -             | -         | -           | 427              | -           |
| Under restricted stock plan, net of forfeitures                                     | -                | 5          | -          | -          | -             | -         | -           | 5                | -           |
| Stock-based compensation                                                            | -                | -          | 23,729     | -          | -             | -         | -           | 23,729           | -           |
| Tax benefit of non-controlling interest repurchases                                 | -                | -          | 2,118      | -          | -             | -         | -           | 2,118            | -           |
| Repurchase of Non-Voting Common Stock                                               | -                | (3 )       | (36,340 )  | -          | -             | -         | -           | (36,343 )        | -           |
| Principal repayments on notes receivable from stock                                 | -                | -          | -          | 987        | -             | -         | -           | 987              | -           |

|                              |     |       |           |            |            |           |       |             |   |           |
|------------------------------|-----|-------|-----------|------------|------------|-----------|-------|-------------|---|-----------|
| option exercises             |     |       |           |            |            |           |       |             |   |           |
| Net subscriptions            |     |       |           |            |            |           |       |             |   |           |
| (redemptions/distributions)  | -   | -     | -         | -          | -          | -         | (739) | (739        | ) | 52,244    |
| of non-controlling interest  |     |       |           |            |            |           |       |             |   |           |
| holders                      |     |       |           |            |            |           |       |             |   |           |
| Net consolidations           |     |       |           |            |            |           |       |             |   |           |
| (deconsolidations) of        | -   | -     | -         | -          | -          | -         | -     | -           |   | (488 )    |
| sponsored investment funds   |     |       |           |            |            |           |       |             |   |           |
| and CLO entities             |     |       |           |            |            |           |       |             |   |           |
| Reclass to temporary equity  | -   | -     | -         | -          | -          | -         | 34    | 34          |   | (34 )     |
| Purchase of non-controlling  | -   | -     | -         | -          | -          | -         | -     | -           |   | (8,439 )  |
| interests                    |     |       |           |            |            |           |       |             |   |           |
| Changes in redemption        |     |       |           |            |            |           |       |             |   |           |
| value of non-controlling     | -   | -     | (630      | )          | -          | -         | -     | (630        | ) | 630       |
| interests redeemable at fair |     |       |           |            |            |           |       |             |   |           |
| value                        |     |       |           |            |            |           |       |             |   |           |
| Balance, January 31, 2018    | \$2 | \$469 | \$182,502 | \$(10,518) | \$(34,694) | \$961,492 | \$901 | \$1,100,154 |   | \$304,449 |

*See notes to Consolidated Financial Statements.*

## Eaton Vance Corp.

## Consolidated Statements of Shareholders' Equity (unaudited) (continued)

|                                                                              | Permanent Equity    |                         |                            |                                              |                                               |                   | Temporary Equity                         |                        |                                      |
|------------------------------------------------------------------------------|---------------------|-------------------------|----------------------------|----------------------------------------------|-----------------------------------------------|-------------------|------------------------------------------|------------------------|--------------------------------------|
|                                                                              | Voting Common Stock | Non-Voting Common Stock | Additional Paid-In Capital | Notes Receivable from Stock Option Exercises | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Non-Redeemable Non-Controlling Interests | Total Permanent Equity | Redeemable Non-Controlling Interests |
| (in thousands)                                                               |                     |                         |                            |                                              |                                               |                   |                                          |                        |                                      |
| Balance, November 1, 2016                                                    | \$2                 | \$444                   | \$-                        | \$(12,074)                                   | \$(57,583)                                    | \$773,000         | \$786                                    | \$704,575              | \$109,028                            |
| Net income                                                                   | -                   | -                       | -                          | -                                            | -                                             | 60,711            | 892                                      | 61,603                 | 2,738                                |
| Other comprehensive income                                                   | -                   | -                       | -                          | -                                            | 6,128                                         | -                 | -                                        | 6,128                  | -                                    |
| Dividends declared (\$0.28 per share)                                        | -                   | -                       | -                          | -                                            | -                                             | (32,260)          | -                                        | (32,260)               | -                                    |
| Issuance of Non-Voting Common Stock:                                         |                     |                         |                            |                                              |                                               |                   |                                          |                        |                                      |
| On exercise of stock options                                                 | -                   | 3                       | 26,215                     | (330)                                        | -                                             | -                 | -                                        | 25,888                 | -                                    |
| Under employee stock purchase plans                                          | -                   | -                       | 1,516                      | -                                            | -                                             | -                 | -                                        | 1,516                  | -                                    |
| Under employee stock purchase incentive plan                                 | -                   | -                       | 324                        | -                                            | -                                             | -                 | -                                        | 324                    | -                                    |
| Under restricted stock plan, net of forfeitures                              | -                   | 6                       | -                          | -                                            | -                                             | -                 | -                                        | 6                      | -                                    |
| Stock-based compensation                                                     | -                   | -                       | 20,178                     | -                                            | -                                             | -                 | -                                        | 20,178                 | -                                    |
| Tax benefit of stock option exercises and vesting of restricted stock awards | -                   | -                       | 4,858                      | -                                            | -                                             | -                 | -                                        | 4,858                  | -                                    |
| Tax benefit of non-controlling interest repurchases                          | -                   | -                       | 3,659                      | -                                            | -                                             | -                 | -                                        | 3,659                  | -                                    |
| Repurchase of Non-Voting Common Stock                                        | -                   | (5)                     | (53,596)                   | -                                            | -                                             | -                 | -                                        | (53,601)               | -                                    |
| Principal repayments on notes receivable from stock option exercises         | -                   | -                       | -                          | 2,263                                        | -                                             | -                 | -                                        | 2,263                  | -                                    |

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|                                                                                            |     |       |         |            |            |           |       |           |     |           |    |
|--------------------------------------------------------------------------------------------|-----|-------|---------|------------|------------|-----------|-------|-----------|-----|-----------|----|
| Net subscriptions<br>(redemptions/distributions)<br>of non-controlling interest<br>holders | -   | -     | -       | -          | -          | -         | (874) | (874      | )   | 44,152    |    |
| Reclass to temporary equity                                                                | -   | -     | -       | -          | -          | -         | (64   | )         | (64 | )         | 64 |
| Purchase of non-controlling<br>interests                                                   | -   | -     | -       | -          | -          | -         | -     | -         |     | (6,941    | )  |
| Changes in redemption<br>value of non-controlling<br>interests redeemable at fair<br>value | -   | -     | (377    | )          | -          | -         | -     | (377      | )   | 377       |    |
| Balance, January 31, 2017                                                                  | \$2 | \$448 | \$2,777 | \$(10,141) | \$(51,455) | \$801,451 | \$740 | \$743,822 |     | \$149,418 |    |

*See notes to Consolidated Financial Statements.*

**Eaton Vance Corp.****Consolidated Statements of Cash Flows (unaudited)**

| (in thousands)                                                                 | Three Months Ended<br>January 31, |            |
|--------------------------------------------------------------------------------|-----------------------------------|------------|
|                                                                                | 2018                              | 2017       |
| Cash Flows From Operating Activities:                                          |                                   |            |
| Net income                                                                     | \$88,511                          | \$64,341   |
| Adjustments to reconcile net income to net cash used for operating activities: |                                   |            |
| Depreciation and amortization                                                  | 5,272                             | 4,494      |
| Amortization of deferred sales commissions                                     | 4,277                             | 3,855      |
| Stock-based compensation                                                       | 23,730                            | 20,178     |
| Deferred income taxes                                                          | 30,820                            | 11,101     |
| Net (gains) losses on investments and derivatives                              | (977 )                            | 3,935      |
| Loss on write-off of Hexavest option                                           | 6,523                             | -          |
| Equity in net income of affiliates, net of amortization                        | (3,014 )                          | (2,506 )   |
| Dividends received from affiliates                                             | 2,875                             | 2,905      |
| Consolidated CLO entity's operating activities:                                |                                   |            |
| Net gains on bank loan investments                                             | (894 )                            | -          |
| Net decrease in other assets and liabilities, including cash                   | (613 )                            | -          |
| Changes in operating assets and liabilities:                                   |                                   |            |
| Management fees and other receivables                                          | (12,915 )                         | (124 )     |
| Investments in trading securities                                              | (93,285 )                         | (113,213 ) |
| Deferred sales commissions                                                     | (7,764 )                          | (8,174 )   |
| Other assets                                                                   | 15,837                            | 11,356     |
| Accrued compensation                                                           | (128,582)                         | (108,269)  |
| Accounts payable and accrued expenses                                          | 4,742                             | 7,515      |
| Other liabilities                                                              | 5,460                             | 69,256     |
| Net cash used for operating activities                                         | (59,997 )                         | (33,350 )  |
| Cash Flows From Investing Activities:                                          |                                   |            |
| Additions to equipment and leasehold improvements                              | (2,594 )                          | (2,435 )   |
| Net cash paid in acquisition                                                   | -                                 | (52,016 )  |
| Proceeds from sale of investments                                              | -                                 | 4,102      |
| Purchase of investments                                                        | (20,326 )                         | (32 )      |
| Consolidated CLO entity's investing activities:                                |                                   |            |
| Proceeds from sales of bank loan investments                                   | 13,921                            | -          |
| Purchase of bank loan investments                                              | (37,973 )                         | -          |
| Net cash used for investing activities                                         | (46,972 )                         | (50,381 )  |

*See notes to Consolidated Financial Statements.*





**Eaton Vance Corp.****Consolidated Statements of Cash Flows (unaudited) (continued)**

| (in thousands)                                                                                                | Three Months Ended<br>January 31, |            |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------|------------|
|                                                                                                               | 2018                              | 2017       |
| Cash Flows From Financing Activities:                                                                         |                                   |            |
| Purchase of additional non-controlling interest                                                               | (20,818 )                         | (9,451 )   |
| Proceeds from issuance of Non-Voting Common Stock                                                             | 44,284                            | 27,734     |
| Repurchase of Non-Voting Common Stock                                                                         | (36,343 )                         | (53,601 )  |
| Principal repayments on notes receivable from stock option exercises                                          | 987                               | 2,263      |
| Dividends paid                                                                                                | (37,499 )                         | (31,749 )  |
| Net subscriptions received from (redemptions/distributions paid to) non-controlling interest holders          | 51,461                            | 43,424     |
| Consolidated CLO entity's financing activities:                                                               |                                   |            |
| Proceeds from line of credit                                                                                  | 23,936                            | -          |
| Net cash provided by (used for) financing activities                                                          | 26,008                            | (21,380 )  |
| Effect of currency rate changes on cash and cash equivalents                                                  | 3,722                             | 1,050      |
| Net decrease in cash and cash equivalents                                                                     | (77,239 )                         | (104,061 ) |
| Cash and cash equivalents, beginning of period                                                                | 610,555                           | 424,174    |
| Cash and cash equivalents, end of period                                                                      | \$533,316                         | \$320,113  |
| Supplemental Cash Flow Information:                                                                           |                                   |            |
| Cash paid for interest                                                                                        | \$5,985                           | \$5,988    |
| Cash paid for interest by consolidated CLO entity                                                             | 77                                | -          |
| Cash paid for income taxes, net of refunds                                                                    | 13,841                            | 4,321      |
| Supplemental Disclosure of Non-Cash Information:                                                              |                                   |            |
| Increase in equipment and leasehold improvements due to non-cash additions                                    | \$746                             | \$275      |
| Exercise of stock options through issuance of notes receivable                                                | 393                               | 331        |
| Increase in non-controlling interest due to net consolidation (deconsolidation) of sponsored investment funds | 61,441                            | 29,969     |
| Decrease in bank loan investments of consolidated CLO entity due to unsettled sales                           | (5,023 )                          | -          |
| Increase in bank loan investments of consolidated CLO entity due to unsettled purchases                       | 25,284                            | -          |

*See notes to Consolidated Financial Statements.*

**Eaton Vance Corp.**

**Notes to Consolidated Financial Statements (unaudited)**

**1. Summary of Significant Accounting Policies**

***Basis of presentation***

In the opinion of management, the accompanying unaudited interim Consolidated Financial Statements of Eaton Vance Corp. (the Company) include all adjustments necessary to present fairly the results for the interim periods in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Such financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures have been omitted pursuant to such rules and regulations. As a result, these financial statements should be read in conjunction with the audited Consolidated Financial Statements and related notes included in the Company's latest Annual Report on Form 10-K.

***Adoption of new accounting standard***

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update, *Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09), which simplifies certain aspects of the accounting for share-based payment transactions. The Company adopted ASU 2016-09 as of November 1, 2017. One of the impacts of adoption is that excess tax benefits or tax deficiencies related to the exercise of stock options and vesting of restricted stock awards are no longer recognized in additional paid-in capital but rather as an income tax benefit or income tax expense in the period of vesting or settlement. This provision requires a prospective approach to adoption. The Company recognized an excess tax benefit of \$11.9 million for the three months ended January 31, 2018 attributable to the exercise of stock options and vesting of restricted stock awards in conjunction with the adoption of this ASU.

This guidance also requires that the excess tax benefits or tax deficiencies described above be classified as an operating cash flow within the Consolidated Statements of Cash Flows as opposed to a financing cash flow, as previously reported. The Company elected to use a retrospective approach to the adoption of this provision. As a result, the excess tax benefit of \$5.7 million recognized for the three months ended January 31, 2017 was reclassified out of financing activities and into operating activities.

Finally, the guidance allows companies to elect to continue to account for forfeitures using an estimate or instead to elect to account for forfeitures as they occur. Upon adoption, the Company elected to account for forfeitures as they occur and adopted this provision using the modified retrospective approach. Therefore, upon adoption, the Company recognized a \$0.5 million cumulative effect adjustment (reduction) to retained earnings, net of related income tax effects, to reflect the timing difference of when forfeitures are recognized in the measurement of stock-based compensation cost.

The Company's accounting policy related to stock-based compensation has been amended to reflect the adoption of this new accounting standard and is summarized below.

***Stock-based compensation***

The Company accounts for stock-based compensation expense at fair value. Under the fair value method, stock-based compensation expense, which reflects the fair value of stock-based awards measured at grant date, is recognized on a straight-line basis over the relevant service period (generally five years) and is adjusted each period for forfeitures as they occur.

The fair value of each option award granted is estimated using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, expected volatility, an appropriate risk-free interest rate and the expected life of the option.

The fair value of profit interests granted under subsidiary long-term equity plans is estimated on the grant date by averaging fair value established using an income approach and fair value established using a market approach for each subsidiary.

The tax effect of the difference, if any, between the cumulative compensation expense recognized for a stock-based award for financial reporting purposes and the deduction for such award for tax purposes is recognized as income tax expense (for tax deficiencies) or benefit (for excess tax benefits) in the Company's Consolidated Statements of Income in the period in which the tax deduction arises (generally in the period of vesting or settlement of a stock-based award, as applicable) and are reflected as an operating activity on the Company's Consolidated Statements of Cash Flows. Shares of non-voting common stock withheld for tax withholding purposes upon the vesting of restricted share awards are reflected as a financing activity in the Company's Consolidated Statements of Cash Flows.

**2. Consolidated Sponsored Funds**

The following table sets forth the balances related to consolidated sponsored funds at January 31, 2018 and October 31, 2017, as well as the Company's net interest in these funds:

|                   | <b>January 31,    October 31,</b> |             |
|-------------------|-----------------------------------|-------------|
| (in thousands)    | <b>2018</b>                       | <b>2017</b> |
| Investments       | \$ 500,766                        | \$ 401,726  |
| Other assets      | 11,838                            | 13,537      |
| Other liabilities | (54,240 )                         | (50,314 )   |

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|                                          |            |            |
|------------------------------------------|------------|------------|
| Redeemable non-controlling interests     | (215,502 ) | (154,061 ) |
| Interest in consolidated sponsored funds | \$ 242,862 | \$ 210,888 |

### 3. Investments

The following is a summary of investments at January 31, 2018 and October 31, 2017:

| (in thousands)                               | January 31, October 31, |            |
|----------------------------------------------|-------------------------|------------|
|                                              | 2018                    | 2017       |
| Investment securities, trading:              |                         |            |
| Short-term debt securities                   | \$ 207,450              | \$ 213,537 |
| Consolidated sponsored funds                 | 500,766                 | 401,726    |
| Separately managed accounts                  | 103,050                 | 93,113     |
| Total investment securities, trading         | 811,266                 | 708,376    |
| Investment securities, available-for-sale    | 23,447                  | 22,465     |
| Investments in non-consolidated CLO entities | 23,860                  | 3,609      |
| Investments in equity method investees       | 152,324                 | 144,911    |
| Investments, other                           | 18,841                  | 18,831     |
| Total investments <sup>(1)</sup>             | \$ 1,029,738            | \$ 898,192 |

<sup>(1)</sup>Excludes bank loan investments held by a consolidated warehouse-stage CLO entity, which is discussed in Note 5.

#### ***Investment securities, trading***

The following is a summary of the fair value of investments classified as trading at January 31, 2018 and October 31, 2017:

| (in thousands)                       | January 31, October 31, |            |
|--------------------------------------|-------------------------|------------|
|                                      | 2018                    | 2017       |
| Short-term debt securities           | \$ 207,450              | \$ 213,537 |
| Other debt securities                | 400,792                 | 313,351    |
| Equity securities                    | 203,024                 | 181,488    |
| Total investment securities, trading | \$ 811,266              | \$ 708,376 |

The Company recognized gains related to trading securities still held at the reporting date of \$7.3 million and \$2.3 million for the three months ended January 31, 2018 and 2017, respectively, within gains and other investment income, net, on the Company's Consolidated Statements of Income.

*Investment securities, available-for-sale*

The following is a summary of the gross unrealized gains and losses included in accumulated other comprehensive income (loss) related to securities classified as available-for-sale at January 31, 2018 and October 31, 2017:

| January 31, 2018                          |          | Gross Unrealized |          |            |
|-------------------------------------------|----------|------------------|----------|------------|
| (in thousands)                            | Cost     | Gains            | Losses   | Fair Value |
| Investment securities, available-for-sale | \$15,776 | \$ 7,688         | \$ (17 ) | \$ 23,447  |

| October 31, 2017                          |          | Gross Unrealized |         |            |
|-------------------------------------------|----------|------------------|---------|------------|
| (in thousands)                            | Cost     | Gains            | Losses  | Fair Value |
| Investment securities, available-for-sale | \$15,755 | \$ 6,718         | \$ (8 ) | \$ 22,465  |

Net unrealized holding gains on investment securities classified as available-for-sale included in other comprehensive income on the Company's Consolidated Statements of Comprehensive Income were \$1.0 million and \$0.5 million for the three months ended January 31, 2018 and 2017, respectively.

The Company did not recognize any impairment losses on investment securities classified as available-for-sale for the three months ended January 31, 2018 or 2017.

The aggregate fair value of available-for-sale investments in an unrealized loss position at January 31, 2018 was \$0.1 million; unrealized losses related to these investments totaled \$17,000. No investment with a gross unrealized loss has been in a loss position for greater than one year.

The following is a summary of the Company's realized gains and losses recognized upon disposition of investments classified as available-for-sale for the three months ended January 31, 2018 and 2017:

| (in thousands)     | Three Months Ended |                  |
|--------------------|--------------------|------------------|
|                    | January 31, 2018   | January 31, 2017 |
| Gains              | \$ 5               | \$ 203           |
| Losses             | -                  | -                |
| Net realized gains | \$ 5               | \$ 203           |

#### *Investments in equity method investees*

The Company has a 49 percent interest in Hexavest Inc. (Hexavest), a Montreal, Canada-based investment adviser. The carrying value of this investment was \$149.1 million and \$142.0 million at January 31, 2018 and October 31, 2017, respectively. At January 31, 2018, the Company's investment in Hexavest consisted of \$6.7 million of equity in



the net assets of Hexavest, definite-lived intangible assets of \$24.4 million and goodwill of \$124.6 million, net of a deferred tax liability of \$6.6 million. At October 31, 2017, the Company's investment in Hexavest consisted of \$6.1 million of equity in the net assets of Hexavest, definite-lived intangible assets of \$23.7 million and goodwill of \$118.6 million, net of a deferred tax liability of \$6.4 million. The investment is denominated in Canadian dollars and is subject to foreign currency translation adjustments, which are recorded in accumulated other comprehensive income (loss). The year-to-date change in the carrying value of goodwill is entirely attributable to such foreign currency translation adjustments.

The Company also has a seven percent equity interest in a private equity partnership managed by a third party that invests in companies in the financial services industry. The Company's investment in the partnership was \$3.2 million and \$2.9 million at January 31, 2018 and October 31, 2017, respectively.

The Company did not recognize any impairment losses related to its investments in equity method investees during the three months ended January 31, 2018 or 2017.

During both the three months ended January 31, 2018 and 2017, the Company received dividends of \$2.9 million from its investments in equity method investees.

***Investments, other***

Investments, other, which totaled \$18.8 million at both January 31, 2018 and October 31, 2017, consists of certain investments carried at cost.

During the year ended October 31, 2016, the Company participated as lead investor in an equity financing in SigFig, an independent San Francisco-based wealth management technology firm. The carrying value of Company's investment in SigFig was \$17.0 million at both January 31, 2018 and October 31, 2017.

**4. Derivative Financial Instruments**

***Derivative financial instruments designated as cash flow hedges***

In April 2017, the Company issued \$300.0 million in aggregate principal amount of 3.5 percent ten-year senior notes due April 6, 2027 (2027 Senior Notes). The Company entered into a Treasury lock transaction with a notional amount of \$125.0 million and concurrently designated the Treasury lock as a cash flow hedge of its exposure to variability in the forecasted semi-annual interest payments on \$125.0 million of principal outstanding on the 2027 Senior Notes. The benchmark U.S. Treasury rate declined from the time the Treasury lock was entered into until the time the 2027 Senior Notes were priced, and the Treasury lock was net settled for cash at a loss of \$0.7 million. The Treasury lock was determined to be a highly effective cash flow hedge and the entire \$0.7 million loss, net of the associated deferred tax benefit of \$0.3 million, was recorded in other comprehensive income (loss), net of tax. The Company reclassified \$17,000 of this deferred loss into interest expense during the three months ended January 31, 2018 and will reclassify the remaining \$0.6 million of unamortized loss as of January 31, 2018 to earnings as a component of interest expense over the remaining term of the debt. During the next twelve months, the Company expects to reclassify approximately \$68,000 of the loss into interest expense.

In fiscal 2013, the Company entered into a forward-starting interest rate swap in connection with the offering of its 3.625 percent unsecured senior notes due June 15, 2023 (2023 Senior Notes) and recorded the unamortized gain on the swap in other comprehensive income (loss), net of tax. The Company reclassified \$50,000 of the deferred gain into interest expense during both the three months ended January 31, 2018 and 2017 and will reclassify the remaining \$1.1 million of unamortized gain as of January 31, 2018 to earnings as a component of interest expense over the remaining term of the debt. During the next twelve months, the Company expects to reclassify approximately \$0.2 million of the gain into interest expense.

***Other derivative financial instruments not designated for hedge accounting***

The Company utilizes stock index futures contracts, total return swap contracts, foreign exchange contracts, commodity futures contracts, currency futures contracts and interest rate futures contracts to

hedge the market and currency risks associated with its investments in certain consolidated seed investments.

The Company was a party to the following derivative financial instruments at January 31, 2018 and October 31, 2017:

|                                 | January 31, 2018 |                      | October 31, 2017 |                      |
|---------------------------------|------------------|----------------------|------------------|----------------------|
|                                 | <b>Number</b>    | <b>Notional</b>      | <b>Number</b>    | <b>Notional</b>      |
|                                 | <b>of</b>        | <b>Value</b>         | <b>of</b>        | <b>Value</b>         |
|                                 | <b>Contracts</b> | <b>(in millions)</b> | <b>Contracts</b> | <b>(in millions)</b> |
| Stock index futures contracts   | 1,287            | \$ 119.1             | 1,470            | \$ 118.1             |
| Total return swap contracts     | 6                | \$ 106.5             | 2                | \$ 50.2              |
| Foreign exchange contracts      | 38               | \$ 30.9              | 31               | \$ 28.1              |
| Commodity futures contracts     | 178              | \$ 9.2               | 213              | \$ 10.2              |
| Currency futures contracts      | 127              | \$ 14.3              | 131              | \$ 14.5              |
| Interest rate futures contracts | 141              | \$ 28.8              | 134              | \$ 25.6              |

The Company has not designated any of these derivative contracts as hedging instruments for accounting purposes. The derivative contracts outstanding and the notional values they represent at January 31, 2018 and October 31, 2017 are representative of derivative balances throughout each respective period.

The Company has not elected to offset fair value amounts related to derivative instruments executed with the same counterparty under master netting arrangements; as a result, the Company records all derivative financial instruments as either other assets or other liabilities, gross, on its Consolidated Balance Sheets and measures them at fair value. The following tables present the fair value of derivative financial instruments not designated for hedge accounting, and how they are reflected in the Company's Consolidated Financial Statements as of January 31, 2018 and October 31, 2017:

|                                 | January 31, 2018 |                    | October 31, 2017 |                    |
|---------------------------------|------------------|--------------------|------------------|--------------------|
|                                 | <b>Other</b>     | <b>Other</b>       | <b>Other</b>     | <b>Other</b>       |
| (in thousands)                  | <b>Assets</b>    | <b>Liabilities</b> | <b>Assets</b>    | <b>Liabilities</b> |
| Stock index futures contracts   | \$ 308           | \$ 7,731           | \$ 330           | \$ 3,021           |
| Total return swap contracts     | -                | 1,195              | -                | 570                |
| Foreign exchange contracts      | 222              | 1,075              | 650              | 60                 |
| Commodity futures contracts     | 66               | 88                 | 63               | 120                |
| Currency futures contracts      | 274              | 498                | 327              | 178                |
| Interest rate futures contracts | 277              | 182                | 48               | 226                |

|       |         |           |          |          |
|-------|---------|-----------|----------|----------|
| Total | \$1,147 | \$ 10,769 | \$ 1,418 | \$ 4,175 |
|-------|---------|-----------|----------|----------|

Changes in the fair value of derivative contracts are recognized in gains (losses) and other investment income, net (see Note 12). The Company recognized the following net gains (losses) on derivative financial instruments for the three months ended January 31, 2018 and 2017:

|                                 | Three Months Ended |             |
|---------------------------------|--------------------|-------------|
|                                 | January 31,        |             |
| (in thousands)                  | 2018               | 2017        |
| Stock index futures contracts   | \$ (7,656 )        | \$ (5,933 ) |
| Total return swap contracts     | (625 )             | (964 )      |
| Foreign exchange contracts      | (899 )             | (27 )       |
| Commodity futures contracts     | (403 )             | -           |
| Interest rate futures contracts | 84                 | -           |
| Currency futures contracts      | (86 )              | -           |
| Net realized gains (losses)     | \$ (9,585 )        | \$ (6,924 ) |

In addition to the derivative contracts described above, certain consolidated seed investments may utilize derivative financial instruments within their portfolios in pursuit of their stated investment objectives.

## 5. Variable Interest Entities

### *Investments in VIEs that are consolidated*

#### *Consolidated sponsored funds*

The Company invests in investment companies that meet the definition of a VIE. Disclosure regarding such consolidated sponsored funds is included in Note 2.

#### *Consolidated CLO entities*

As of January 31, 2018 and October 31, 2017, the Company deems itself to be the primary beneficiary of one non-recourse CLO entity, namely, Eaton Vance CLO 2017-1 (CLO 2017-1), a warehousing phase CLO entity.

#### *Eaton Vance CLO 2017-1 (CLO 2017-1)*

The Company established CLO 2017-1 on August 24, 2017. CLO 2017-1 is in the warehousing phase as of January 31, 2018 and October 31, 2017. The Company contributed \$18.8 million into CLO 2017-1 at the inception of the entity and concurrently entered into a credit facility agreement with a third-party lender that provided CLO 2017-1 with a \$160.0 million non-recourse revolving line of credit. At January 31, 2018 and October 31, 2017, \$36.5 million and \$12.6 million, respectively, was outstanding under the revolving line of credit. As collateral manager, the Company has the unilateral ability to liquidate CLO 2017-1 without cause (a “substantive kick-out right” under the accounting guidance), which provides it with the power to direct the activities that most significantly impact the

economic performance of the entity. The Company's \$18.8 million capital contribution to CLO 2017-1 serves as first-loss protection to the third-party lender and provides the Company with an obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the entity. Accordingly, the Company deems itself to be the primary beneficiary of CLO 2017-1 from establishment on August 24, 2017.

During the warehouse phase, the Company, acting as collateral manager and subject to the approval of the third-party lender, intends to use its capital contributions along with the proceeds from the revolving line of credit to accumulate a portfolio of commercial bank loan investments in open market purchases in an amount sufficient for eventual securitization. The Company has no right to the benefits from, nor does the Company bear the risks associated with, the commercial bank loan investments held by CLO 2017-1 beyond the Company's capital contribution. In the event of default, the recourse to the Company is limited

to its investment in the warehouse. The Company does not earn any collateral management fees from CLO 2017-1 during the warehousing phase. The Company will be the collateral manager of the CLO entity during the securitization phase.

The size of the non-recourse revolving line of credit can be increased subject to the occurrence of certain events and the mutual consent of the parties. The line of credit is secured by all of the commercial bank loan investments in CLO 2017-1 and initially bears interest at a rate of daily LIBOR plus 1.25 percent per annum (with such interest rate, upon completion of the initial twelve-month warehousing period, increasing to daily LIBOR plus 2.0 percent per annum). The third-party lender does not have any recourse to the Company's general credit.

The Company's \$18.8 million capital contribution to CLO 2017-1 was eliminated in consolidation. Upon consolidation, the Company irrevocably elected to subsequently measure the commercial bank loan investments at fair value using the fair value option.

The following table presents, as of January 31, 2018, the fair value of CLO 2017-1's assets that are subject to fair value accounting:

January 31, 2018

| (in thousands)                           | CLO Bank Loan Investments             |                                |
|------------------------------------------|---------------------------------------|--------------------------------|
|                                          | Total CLO<br>bank loan<br>investments | 90 days or<br>more past<br>due |
| Unpaid principal balance                 | \$ 75,660                             | \$ -                           |
| Unpaid principal balance over fair value | 894                                   | -                              |
| Fair value                               | \$ 76,554                             | \$ -                           |

As of October 31, 2017, the unpaid principal balance of the commercial bank loan investments approximated fair value, and there were no unpaid principal balances of such loans that were 90 days or more past due or in non-accrual status. Disclosure of the fair value of bank loan investments at January 31, 2018 and October 31, 2017, is included in Note 6.

The Company did not elect the fair value option for amounts outstanding under the revolving line of credit upon the initial consolidation of CLO 2017-1 as these liabilities are temporary in nature. Disclosure of the fair value of amounts outstanding under the revolving line of credit is included in Note 7. If the Company determines it is the primary beneficiary of CLO 2017-1 during the securitization phase, the Company intends to irrevocably elect the fair value option for the note obligations of Eaton Vance CLO 2017-1 upon their issuance, mitigating any potential accounting



mismatches between the carrying value of the note obligations to be issued during the securitization phase and the carrying value of the commercial bank loan investments held to provide the cash flows for those note obligations.

Changes in the fair values of CLO 2017-1's bank loan investments resulted in net gains of \$0.9 million for the three months ended January 31, 2018. This amount is recorded in gains and other investment income, net, of consolidated CLO entity on the Company's Consolidated Statement of Income. For the three months ended January 31, 2018, the Company recorded net income of \$1.6 million related to CLO 2017-1, all of which was recorded as a net income attributable to Eaton Vance Corp. shareholders.

*Eaton Vance CLO 2015-1 (CLO 2015-1)*

On November 1, 2017, the Company purchased 100 percent of the equity interests in CLO 2015-1 for \$26.7 million and reconsidered whether it is the primary beneficiary of CLO 2015-1 as of that date. As collateral manager, the Company had the power to direct the activities that most significantly impact the economic performance of the entity. The Company's newly acquired equity interest provided it with an obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the entity. Accordingly, the Company deemed itself to be the primary beneficiary of CLO 2015-01 as of November 1, 2017. On December 8, 2017, the Company sold 95 percent of the equity interests in CLO 2015-1 for \$24.7 million and recognized a loss on disposal of \$0.6 million. The transaction settled on December 22, 2017. Although the Company continues to serve as collateral manager of the entity, and therefore has the power to direct the activities that most significantly impact the economic performance of the entity, the Company concluded that it no longer has an obligation to absorb losses of, or the right to receive benefits that could potentially be significant to, CLO 2015-1. As a result, the Company concluded that it is no longer the primary beneficiary and therefore deconsolidated CLO 2015-1 during the first quarter of fiscal 2018. The Company maintains the remaining 5 percent equity interest as an investment in non-consolidated CLO entities. In addition to the 5 percent equity interest, the Company holds \$18.9 million in senior debt tranches of the CLO, resulting in a total investment of \$20.3 million in CLO 2015-1 as of January 31, 2018.

During the three months ended January 31, 2018, the Company recorded a loss on disposal of \$0.6 million. The amount is recorded in gains and other investment income, net, on the Company's Consolidated Statement of Income.

***Investments in VIEs that are not consolidated***

*Sponsored funds*

The Company classifies its investments in certain sponsored funds that are considered VIEs as available-for-sale investments when it is not considered the primary beneficiary of these VIEs (generally when the Company owns less than 10 percent of the fund). The Company provides aggregated disclosures with respect to these non-consolidated sponsored fund VIEs in Note 3.

*Non-consolidated CLO entities*

The Company is not deemed the primary beneficiary of several CLO entities in which it holds variable interests that consist of direct investments and management fees (including subordinated management fees) earned from managing the collateral of these CLO entities. In its role as collateral manager, the Company often has the power to direct the activities of the CLO entities that most significantly impact the economic performance of these entities. In developing its conclusion that it is not the primary beneficiary of these entities, the Company determined that, for certain of these entities, although it has variable interests in each by virtue of its beneficial interests therein and the collateral management fees it receives, its variable interests neither individually nor in the aggregate represent an obligation to

absorb losses of, or a right to receive benefits from, any such entity that could potentially be significant to that entity. Quantitative factors supporting the Company's qualitative conclusion in each case included the relative size of the Company's beneficial interest and the overall magnitude and design of the collateral management fees within each structure.

The Company's maximum exposure to loss with respect to these managed CLO entities is limited to the carrying value of its investments in, and collateral management fees receivable from, these entities as of January 31, 2018. Additional information regarding the Company's investment in non-consolidated CLO

entities, as well as the combined assets under management in the pools of non-consolidated CLO entities, is included in Note 3. Collateral management fees receivable for these entities totaled \$0.5 million and \$0.4 million on January 31, 2018 and October 31, 2017, respectively. Investors in these CLO entities have no recourse against the Company for any losses sustained in the CLO structures. The Company did not provide any financial or other support to these entities that it was not previously contractually required to provide in any of the fiscal years presented. Income from these entities is recorded as a component of gains (losses) and other investment income, net, in the Company's Consolidated Statements of Income, based upon projected investment yields.

#### *Other entities*

The Company holds variable interests in, but is not deemed to be the primary beneficiary of, certain sponsored privately offered equity funds with total assets of \$20.4 billion and \$18.1 billion as of January 31, 2018 and October 31, 2017, respectively. The Company's variable interests in these entities consist of the Company's direct ownership therein, which in each case is insignificant relative to the total ownership of the fund, and any investment advisory fees earned but uncollected. The Company held investments in these entities totaling \$2.9 million and \$2.7 million on January 31, 2018 and October 31, 2017, respectively, and investment advisory fees receivable totaling \$1.3 million and \$1.1 million on January 31, 2018 and October 31, 2017, respectively. The Company did not provide any financial or other support to these entities that it was not contractually required to provide in any of the periods presented. The Company's risk of loss with respect to these managed entities is limited to the carrying value of its investments in, and investment advisory fees receivable from, the entities as of January 31, 2018. The Company does not consolidate these VIEs because it does not have the obligation to absorb losses of the VIE's that could potentially be significant to the VIEs or the right to receive benefits from the VIEs that could potentially be significant to the VIEs.

The Company's investments in privately offered equity funds are carried at fair value and included in investment securities, available-for-sale, which are disclosed as a component of investments in Note 3. The Company records any change in fair value, net of tax, in other comprehensive income (loss).

The Company also holds a variable interest in, but is not deemed to be the primary beneficiary of, a private equity partnership managed by a third party that invests in companies in the financial services industry. The Company's variable interest in this entity consists of the Company's direct ownership in the private equity partnership, equal to \$3.2 million and \$2.9 million at January 31, 2018 and October 31, 2017, respectively. The Company did not provide any financial or other support to this entity. The Company's risk of loss with respect to the private equity partnership is limited to the carrying value of its investment in the entity as of January 31, 2018. The Company does not consolidate this VIE because the Company does not hold the power to direct the activities that most significantly impact the VIE.

The Company's investment in the private equity partnership is accounted for as an equity method investment and disclosures related to this entity are included in Note 3 under the heading Investments in equity method investees.



## 6. Fair Value of Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables summarize financial assets and liabilities measured at fair value on a recurring basis and their assigned levels within the valuation hierarchy at January 31, 2018 and October 31, 2017:

January 31, 2018

|                                                             | <b>Other Assets</b> |           |         |                        |             |
|-------------------------------------------------------------|---------------------|-----------|---------|------------------------|-------------|
| (in thousands)                                              | Level 1             | Level 2   | Level 3 | Not Held at Fair Value | Total       |
| Financial assets:                                           |                     |           |         |                        |             |
| Cash equivalents                                            | \$23,996            | \$244,274 | \$ -    | \$-                    | \$268,270   |
| Investments:                                                |                     |           |         |                        |             |
| Investment securities, trading:                             |                     |           |         |                        |             |
| Short-term debt securities                                  | -                   | 207,450   | -       | -                      | 207,450     |
| Other debt securities                                       | 14,860              | 385,932   | -       | -                      | 400,792     |
| Equity securities                                           | 134,218             | 68,806    | -       | -                      | 203,024     |
| Investment securities, available-for-sale                   | 9,443               | 14,004    | -       | -                      | 23,447      |
| Investments in non-consolidated CLO entities <sup>(1)</sup> | -                   | -         | -       | 23,860                 | 23,860      |
| Investments in equity method investees <sup>(2)</sup>       | -                   | -         | -       | 152,324                | 152,324     |
| Investments, other <sup>(3)</sup>                           | -                   | 146       | -       | 18,695                 | 18,841      |
| Derivative instruments                                      | -                   | 1,147     | -       | -                      | 1,147       |
| Assets of consolidated CLO entity:                          |                     |           |         |                        |             |
| Bank loan investments                                       | -                   | 76,554    | -       | -                      | 76,554      |
| Total financial assets                                      | \$182,517           | \$998,313 | \$ -    | \$194,879              | \$1,375,709 |
| Financial liabilities:                                      |                     |           |         |                        |             |
| Derivative instruments                                      | \$-                 | \$10,769  | \$ -    | \$-                    | \$10,769    |
| Total financial liabilities                                 | \$-                 | \$10,769  | \$ -    | \$-                    | \$10,769    |

October 31, 2017

|                                                             | <b>Other</b>   |           |         |           |             |
|-------------------------------------------------------------|----------------|-----------|---------|-----------|-------------|
|                                                             | <b>Assets</b>  |           |         |           |             |
| (in thousands)                                              | Level 1        | Level 2   | Level 3 | Not Held  | Total       |
|                                                             | <b>at Fair</b> |           |         |           |             |
|                                                             | <b>Value</b>   |           |         |           |             |
| Financial assets:                                           |                |           |         |           |             |
| Cash equivalents                                            | \$24,811       | \$97,571  | \$ -    | \$-       | \$122,382   |
| Investments:                                                |                |           |         |           |             |
| Investment securities, trading:                             |                |           |         |           |             |
| Short-term debt securities                                  | -              | 213,537   | -       | -         | 213,537     |
| Other debt securities                                       | 17,255         | 296,096   | -       | -         | 313,351     |
| Equity securities                                           | 125,689        | 55,799    | -       | -         | 181,488     |
| Investment securities, available-for-sale                   | 8,938          | 13,527    | -       | -         | 22,465      |
| Investments in non-consolidated CLO entities <sup>(1)</sup> | -              | -         | -       | 3,609     | 3,609       |
| Investments in equity method investees <sup>(2)</sup>       | -              | -         | -       | 144,911   | 144,911     |
| Investments, other <sup>(3)</sup>                           | -              | 146       | -       | 18,685    | 18,831      |
| Derivative instruments                                      | -              | 1,418     | -       | -         | 1,418       |
| Assets of consolidated CLO entity:                          |                |           |         |           |             |
| Bank loan investments                                       | -              | 31,348    | -       | -         | 31,348      |
| Total financial assets                                      | \$176,693      | \$709,442 | \$ -    | \$167,205 | \$1,053,340 |
| Financial liabilities:                                      |                |           |         |           |             |
| Derivative instruments                                      | \$-            | \$4,175   | \$ -    | \$-       | \$4,175     |
| Total financial liabilities                                 | \$-            | \$4,175   | \$ -    | \$-       | \$4,175     |

*Investments in non-consolidated CLO entities are carried at amortized cost unless facts or circumstances indicate that the investments have been impaired, at which time the investments are written down to fair value as measured*

<sup>(1)</sup> *using level 3 inputs. The Company did not recognize any impairment losses on investments in non-consolidated CLO entities during the three months ended January 31, 2018 or 2017.*

<sup>(2)</sup> *Investments in equity method investees are not measured at fair value in accordance with U.S. GAAP.*

<sup>(3)</sup> *Investments, other, include investments carried at cost that are not measured at fair value in accordance with U.S. GAAP.*

### **Valuation methodologies**

#### *Cash equivalents*

Cash equivalents include investments in money market funds, government agency securities, certificates of deposit and commercial paper with original maturities of less than three months. Cash investments in actively traded money market funds are valued using published net asset values and are classified as Level 1 within the fair value measurement hierarchy. Government agency securities are valued based upon quoted market prices for similar assets in active markets, quoted prices for identical or similar assets that are not active and inputs other than quoted prices that are observable or corroborated by observable market data. The carrying amounts of certificates of deposit and commercial paper are measured at amortized cost, which approximates fair value due to the short time between the purchase and expected maturity of the investments. Depending on the nature of the inputs, these assets are generally classified as Level 1 or 2 within the fair value measurement hierarchy.



*Investment securities, trading – short-term debt*

Short-term debt securities include certificates of deposit, commercial paper and corporate debt obligations with remaining maturities from three months to 12 months. Short-term debt securities held are generally valued on the basis of valuations provided by third-party pricing services, as derived from such services' pricing models. Inputs to the models may include, but are not limited to, reported trades, executable bid and ask prices, broker-dealer quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. The pricing services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security. Depending on the nature of the inputs, these assets are generally classified as Level 1 or 2 within the fair value measurement hierarchy.

*Investment securities, trading – other debt*

Other debt securities classified as trading include debt obligations held in the portfolios of consolidated sponsored funds and separately managed accounts. Other debt securities held are generally valued on the basis of valuations provided by third-party pricing services as described above for investment securities, trading – short-term debt. Other debt securities purchased with a remaining maturity of 60 days or less (excluding those that are non-U.S. denominated, which typically are valued by a third-party pricing service or dealer quotes) are generally valued at amortized cost, which approximates fair value. Depending upon the nature of the inputs, these assets are generally classified as Level 1 or 2 within the fair value measurement hierarchy.

*Investment securities, trading – equity*

Equity securities classified as trading include foreign and domestic equity securities held in the portfolios of consolidated sponsored funds and separately managed accounts. Equity securities are valued at the last sale, official close or, if there are no reported sales on the valuation date, at the mean between the latest available bid and ask prices on the primary exchange on which they are traded. When valuing foreign equity securities that meet certain criteria, the portfolios use a fair value service that values such securities to reflect market trading that occurs after the close of the applicable foreign markets of comparable securities or other instruments that have a strong correlation to the fair-valued securities. In addition, the Company performs its own independent back test review of fair values versus the subsequent local market opening prices when available. Depending upon the nature of the inputs, these assets generally are classified as Level 1 or 2 within the fair value measurement hierarchy.

*Investment securities, available-for-sale*

Investment securities classified as available-for-sale include investments in sponsored mutual funds and privately offered equity funds. Sponsored mutual funds are valued using published net asset values and are classified as Level 1 within the fair value measurement hierarchy. Investments in sponsored privately offered equity funds that are not listed on an active exchange but have net asset values that are comparable to mutual funds and have no redemption restrictions are classified as Level 2 within the fair value measurement hierarchy.

*Derivative instruments*

Derivative instruments, which include stock index futures contracts, total return swap contracts, foreign exchange contracts, commodity futures contracts, currency futures contracts and interest rate futures contracts, are recorded as either other assets or other liabilities on the Company's Consolidated Balance Sheets. Stock index futures contracts, total return swap contracts, commodity futures contracts, currency futures contracts and interest rate futures contracts are valued using a third-party pricing service that determines fair value based on bid and ask prices. Foreign exchange contracts are valued by interpolating

a value using the spot foreign exchange rate and forward points, which are based on spot rate and currency interest rate differentials. Derivative instruments generally are classified as Level 2 within the fair value measurement hierarchy.

*Assets of consolidated CLO entity*

Consolidated CLO entity assets include investments in bank loans. Fair value is determined utilizing unadjusted quoted market prices when available. Interests in senior floating-rate loans for which reliable market quotations are readily available are valued generally at the average mid-point of bid and ask quotations obtained from a third-party pricing service. Fair value may also be based upon valuations obtained from independent third-party brokers or dealers utilizing matrix pricing models that consider information regarding securities with similar characteristics. In certain instances, fair value has been determined utilizing discounted cash flow analyses or single broker non-binding quotes. Depending on the nature of the inputs, these assets are classified as Level 2 or 3 within the fair value measurement hierarchy.

*Transfers in and out of Levels*

The following table summarizes fair value transfers between Level 1 and Level 2 of the fair value measurement hierarchy for the three months ended January 31, 2018 and 2017:

| (in thousands)                                     | Three Months Ended<br>January 31, |        |
|----------------------------------------------------|-----------------------------------|--------|
|                                                    | 2018                              | 2017   |
| Transfers from Level 1 into Level 2 <sup>(1)</sup> | \$ 168                            | \$ 356 |
| Transfers from Level 2 into Level 1 <sup>(2)</sup> | -                                 | 4      |

<sup>(1)</sup> *Transfers from Level 1 into Level 2 represent securities for which unadjusted quoted market prices in active markets became unavailable.*

<sup>(2)</sup> *Transfers from Level 2 into Level 1 represent securities for which unadjusted quoted market prices in active markets became available.*

*Level 3 assets and liabilities*

The Company did not hold any assets or liabilities valued on a recurring basis and classified as Level 3 within the fair value measurement hierarchy during the three months ended January 31, 2018 or 2017.



## 7. Fair Value Measurements of Other Financial Instruments

Certain financial instruments are not carried at fair value, but their fair value is required to be disclosed. The following is a summary of the carrying amounts and estimated fair values of these financial instruments at January 31, 2018 and October 31, 2017:

| (in thousands)                         | January 31, 2018  |               |                        | October 31, 2017  |               |                        |
|----------------------------------------|-------------------|---------------|------------------------|-------------------|---------------|------------------------|
|                                        | Carrying<br>Value | Fair<br>Value | Fair<br>Value<br>Level | Carrying<br>Value | Fair<br>Value | Fair<br>Value<br>Level |
|                                        |                   |               |                        |                   |               |                        |
|                                        |                   |               |                        |                   |               |                        |
| Loan to affiliate                      | \$5,000           | \$5,000       | 3                      | \$5,000           | \$5,000       | 3                      |
| Investments, other                     | \$18,695          | \$18,695      | 3                      | \$18,685          | \$18,685      | 3                      |
| Other assets                           | \$-               | \$-           | -                      | \$6,440           | \$6,440       | 3                      |
| Debt                                   | \$619,052         | \$633,439     | 2                      | \$618,843         | \$644,454     | 2                      |
| Consolidated CLO entity line of credit | \$36,534          | \$36,534      | 2                      | \$12,598          | \$12,598      | 2                      |

As discussed in Note 18, on December 23, 2015, Eaton Vance Management Canada Ltd. (EVMC), a wholly owned subsidiary of the Company, loaned \$5.0 million to Hexavest under a term loan agreement to seed a new investment strategy. The carrying value of the loan approximates fair value. The fair value is determined annually using a cash flow model that projects future cash flows based upon contractual obligations, to which the Company then applies an appropriate discount rate.

Included in investments, other, is a non-controlling capital interest in SigFig carried at \$17.0 million at both January 31, 2018 and October 31, 2017 (see Note 3). The carrying value of this investment approximates fair value, as there have been no events or changes in circumstances that would have had a significant effect on the value of this investment as of January 31, 2018.

Included in other assets at October 31, 2017 was an option to acquire an additional 26 percent interest in Hexavest carried at \$6.4 million. The Company valued the option as of October 31, 2017 using a market approach and determined that the carrying value of the option was representative of fair value. The Company determined not to exercise the option, which expired unexercised on December 11, 2017. Upon expiration, the Company recognized a loss equal to the option's carrying amount of \$6.5 million as of December 11, 2017 within gains (losses) and other investment income, net, in the Company's Consolidated Statement of Income.

The fair value of the Company's debt has been determined based on quoted prices in inactive markets.

The Company established CLO 2017-1 on August 24, 2017 and deems itself to be the primary beneficiary of CLO 2017-1 from that date. The Company did not elect the fair value option for amounts outstanding under the revolving line of credit upon the initial consolidation of CLO 2017-1. Additional information regarding CLO 2017-1, including the terms of the revolving line of credit, is included in Note 5. The carrying amount of the revolving line of credit of \$36.5 million and \$12.6 million as of January 31, 2018 and October 31, 2017, respectively, approximates fair value, as the line of credit was recently originated.

**8.**

**Acquisitions**

***Atlanta Capital Management Company, LLC (Atlanta Capital)***

In the first quarter of fiscal 2018, the Company paid \$2.5 million to settle call options exercised during the fourth quarter of fiscal 2017 through which it purchased all of the remaining 0.45 percent direct profit interests held by non-controlling interest holders of Atlanta Capital pursuant to the provisions of the original Atlanta Capital acquisition agreement, as amended.

In the first quarter of fiscal 2018, the Company paid \$4.2 million to settle call options exercised during the fourth quarter of fiscal 2017 through which it purchased 1.1 percent of indirect profit interests held by non-controlling interest holders of Atlanta Capital pursuant to the provisions of the Atlanta Capital Management Company, LLC Long-term Equity Incentive Plan (the Atlanta Capital Plan). There were no puts or calls exercised in relation to indirect profit interests held by non-controlling interest holders of Atlanta Capital pursuant to the terms of the Atlanta Capital Plan during the first quarter of fiscal 2018.

In the first quarter of fiscal 2017, the Company paid \$1.9 million to settle call options exercised during the fourth quarter of fiscal 2016 through which it purchased 0.9 percent of indirect profit interests held by non-controlling interest holders of Atlanta Capital pursuant to the provisions of the Atlanta Capital Plan. Separately, the Company granted a 1.1 percent profit interest to employees of Atlanta Capital pursuant to the terms of the Atlanta Capital Plan in the first quarter of fiscal 2017.

Total profit interests in Atlanta Capital held by non-controlling interest holders totaled 11.6 percent on January 31, 2018 and October 31, 2017, reflecting the transactions described above.

***Calvert Research and Management (Calvert)***

On December 30, 2016, the Company, through its newly formed subsidiary Calvert, acquired substantially all of the assets of Calvert Investment Management, Inc. (Calvert Investments) for cash. The transaction was accounted for as an asset acquisition because substantially all of the fair value of the gross assets acquired was concentrated in a single identifiable intangible asset related to acquired contracts to manage and distribute sponsored mutual funds (the Calvert Funds). The Calvert Funds are a diversified family of mutual funds, encompassing actively and passively managed

equity, fixed income and asset allocation strategies managed in accordance with the Calvert Principles for Responsible Investment or other responsible investment criteria.

***Parametric Portfolio Associates LLC (Parametric)***

In the first quarter of fiscal 2018, the Company exercised the final call option related to non-controlling interests in Parametric issued in conjunction with the Clifton acquisition, resulting in the Company's acquisition of the remaining indirect 0.5 percent profit interest and 0.5 percent capital interest in Parametric. This transaction settled in December 2017 for \$8.4 million. In the first quarter of fiscal 2017, the Company exercised a call option related to non-controlling interests in Parametric issued in conjunction with the Clifton acquisition, resulting in the Company's acquisition of an indirect 0.5 percent profit interest and a 0.5 percent capital interest in Parametric. This transaction settled in January 2017 for \$6.9 million.



In the first quarter of fiscal 2018, the Company paid \$5.7 million to settle call options exercised in the fourth quarter of fiscal 2017 through which it purchased 0.5 percent profit interests held by non-controlling interest holders of Parametric pursuant to the provisions of the Parametric Portfolio Associates LLC Long-term Equity Plan (the Parametric Plan). There were no puts or calls exercised in relation to profit interests held by non-controlling interest holders of Parametric pursuant to the terms of the Parametric Plan during the first quarter of fiscal 2018.

Total profit interests in Parametric held by non-controlling interest holders, including indirect profit interests issued pursuant to the Parametric Plan, decreased to 5.5 percent as of January 31, 2018 from 6.0 percent as of October 31, 2017, reflecting the transactions described above. Total capital interests in Parametric held by non-controlling interest holders decreased to 0.8 percent as of January 31, 2018 from 1.3 percent as of October 31, 2017.

## 9. Intangible Assets

The following is a summary of intangible assets at January 31, 2018 and October 31, 2017:

January 31, 2018

|                                           | <b>Gross</b>    | <b>Accumulated</b>  | <b>Net</b>      |
|-------------------------------------------|-----------------|---------------------|-----------------|
| (dollars in thousands)                    | <b>Carrying</b> | <b>Amortization</b> | <b>Carrying</b> |
|                                           | <b>Amount</b>   |                     | <b>Amount</b>   |
| Amortizing intangible assets:             |                 |                     |                 |
| Client relationships acquired             | \$ 134,247      | \$ (105,390 )       | \$ 28,857       |
| Intellectual property acquired            | 1,025           | (469 )              | 556             |
| Trademark acquired                        | 4,257           | (913 )              | 3,344           |
| Research system acquired                  | 639             | (231 )              | 408             |
| Non-amortizing intangible assets:         |                 |                     |                 |
| Mutual fund management contracts acquired | 54,408          | -                   | 54,408          |
| Total                                     | \$ 194,576      | \$ (107,003 )       | \$ 87,573       |

October 31, 2017

|                                | <b>Gross</b>    | <b>Accumulated</b>  | <b>Net</b>      |
|--------------------------------|-----------------|---------------------|-----------------|
| (dollars in thousands)         | <b>Carrying</b> | <b>Amortization</b> | <b>Carrying</b> |
|                                | <b>Amount</b>   |                     | <b>Amount</b>   |
| Amortizing intangible assets:  |                 |                     |                 |
| Client relationships acquired  | \$ 134,247      | \$ (103,314 )       | \$ 30,933       |
| Intellectual property acquired | 1,025           | (452 )              | 573             |

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|                                           |            |             |   |           |
|-------------------------------------------|------------|-------------|---|-----------|
| Trademark acquired                        | 4,257      | (821        | ) | 3,436     |
| Research system acquired                  | 639        | (177        | ) | 462       |
| Non-amortizing intangible assets:         |            |             |   |           |
| Mutual fund management contracts acquired | 54,408     | -           |   | 54,408    |
| Total                                     | \$ 194,576 | \$ (104,764 | ) | \$ 89,812 |

Amortization expense was \$2.2 million and \$2.3 million for the three months ended January 31, 2018 and 2017, respectively. Estimated remaining amortization expense for fiscal 2018 and the next five fiscal years, on a straight-line basis, is as follows:

| Year Ending October 31,<br>(in thousands) | Estimated<br>Amortization<br>Expense |
|-------------------------------------------|--------------------------------------|
| Remaining 2018                            | \$ 6,688                             |
| 2019                                      | 4,978                                |
| 2020                                      | 3,807                                |
| 2021                                      | 2,282                                |
| 2022                                      | 2,154                                |
| 2023                                      | 1,754                                |

# 10. Stock-Based Compensation Plans

The Company recognized compensation cost related to its stock-based compensation plans for the three months ended January 31, 2018 and 2017 as follows:

| (in thousands)                         | Three Months Ended<br>January 31, |           |
|----------------------------------------|-----------------------------------|-----------|
|                                        | 2018                              | 2017      |
| Omnibus Incentive Plans:               |                                   |           |
| Stock options                          | \$ 7,289                          | \$ 5,702  |
| Restricted shares                      | 13,493                            | 12,074    |
| Phantom stock units                    | 922                               | 121       |
| Employee Stock Purchase Plans          | 481                               | 176       |
| Employee Stock Purchase Incentive Plan | 86                                | 53        |
| Atlanta Capital Plan                   | 742                               | 855       |
| Parametric Plan                        | 794                               | 940       |
| Parametric Phantom Incentive Plan      | 701                               | 378       |
| Atlanta Capital Phantom Incentive Plan | 143                               | -         |
| Total stock-based compensation expense | \$ 24,651                         | \$ 20,299 |

The total income tax benefit recognized for stock-based compensation arrangements was \$5.7 million and \$7.3 million for the three months ended January 31, 2018 and 2017, respectively.

## Stock options

Stock option transactions under the Company's 2013 Omnibus Incentive Plan (the 2013 Plan) and predecessor plans for the three months ended January 31, 2018 were as follows:

| (share and intrinsic value figures in thousands) | Shares   | Weighted-<br>Average<br>Exercise Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------------------|----------|----------------------------------------|------------------------------------------------------------------------|---------------------------------|
|                                                  |          |                                        |                                                                        |                                 |
| Options outstanding, beginning of period         | 17,587   | \$ 32.63                               |                                                                        |                                 |
| Granted                                          | 1,708    | 50.67                                  |                                                                        |                                 |
| Exercised                                        | (1,407 ) | 30.34                                  |                                                                        |                                 |
| Forfeited/expired                                | (32 )    | 41.37                                  |                                                                        |                                 |
| Options outstanding, end of period               | 17,856   | \$ 34.52                               | 6.2                                                                    | \$ 415,691                      |
| Options exercisable, end of period               | 9,097    | \$ 30.14                               | 4.3                                                                    | \$ 251,605                      |

The Company received \$42.3 million and \$25.9 million related to the exercise of options for the three months ended January 31, 2018 and 2017, respectively.

As of January 31, 2018, there was \$55.5 million of compensation cost related to unvested stock options granted under the 2013 Plan and predecessor plans not yet recognized. That cost is expected to be recognized over a weighted-average period of 3.1 years.

### ***Restricted shares***

A summary of the Company's restricted share activity for the three months ended January 31, 2018 under the 2013 Plan and predecessor plans is as follows:

| (share figures in thousands)  | Shares  | Weighted-<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|---------|--------------------------------------------------|
| Unvested, beginning of period | 4,565   | \$ 36.22                                         |
| Granted                       | 1,233   | 50.72                                            |
| Vested                        | (1,122) | 35.83                                            |
| Forfeited                     | (44 )   | 38.82                                            |
| Unvested, end of period       | 4,632   | \$ 40.15                                         |

As of January 31, 2018, there was \$147.2 million of compensation cost related to unvested restricted shares granted under the 2013 Plan and predecessor plans not yet recognized. That cost is expected to be recognized over a weighted-average period of 3.3 years.

#### Phantom stock units

Phantom stock units issued to non-employee Directors under the 2013 Plan are accounted for as liability awards. During 2017, the 2013 Plan was amended such that non-employee Directors no longer have substantive service conditions for vesting of awards. Once the awards are granted, the non-employee Directors have the right to receive cash payment related to such awards upon separation from the Company (other than for cause). As a result, phantom units granted on or after November 1, 2017 are

considered fully vested on grant date and the entire grant date fair value of these awards is recognized as compensation cost on the date of grant.

During the three months ended January 31, 2018, 13,945 phantom stock units were issued to non-employee Directors pursuant to the 2013 Plan. As of January 31, 2018, there was \$0.2 million of compensation cost related to unvested phantom stock units granted under the 2013 Plan prior to November 2017 not yet recognized. That cost is expected to be recognized over a weighted-average period of one year.

## 11. Common Stock Repurchases

The Company's current Non-Voting Common Stock share repurchase program was announced on January 11, 2017. The Board authorized management to repurchase and retire up to 8.0 million shares of its Non-Voting Common Stock on the open market and in private transactions in accordance with applicable securities laws. The timing and amount of share purchases are subject to management's discretion. The Company's share repurchase program is not subject to an expiration date.

In the first three months of fiscal 2018, the Company purchased and retired approximately 0.7 million shares of its Non-Voting Common Stock under the current repurchase authorization. Approximately 5.4 million additional shares may be repurchased under the current authorization as of January 31, 2018.

## 12. Non-operating Income (Expense)

The components of non-operating income (expense) for the three months ended January 31, 2018 and 2017 were as follows:

| (in thousands)                                           | Three Months Ended<br>January 31, |          |
|----------------------------------------------------------|-----------------------------------|----------|
|                                                          | 2018                              | 2017     |
| Interest and other income                                | \$ 9,116                          | \$ 4,643 |
| Net losses on investments and derivatives <sup>(1)</sup> | (5,545 )                          | (3,936 ) |
| Net foreign currency losses                              | (973 )                            | (213 )   |
| Gains and other investment income, net                   | 2,598                             | 494      |
| Interest expense                                         | (5,907 )                          | (7,347 ) |
| Other income (expense) of consolidated CLO entity:       |                                   |          |
| Interest income                                          | 823                               | -        |

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|                                        |             |             |
|----------------------------------------|-------------|-------------|
| Net gains on bank loans                | 894         | -           |
| Gains and other investment income, net | 1,717       | -           |
| Interest expense                       | (94 )       | -           |
| Total non-operating expense            | \$ (1,686 ) | \$ (6,853 ) |

<sup>(1)</sup> *For the three months ended January 31, 2018, includes the \$6.5 million loss associated with the Company's determination not to exercise the option to acquire an additional 26 percent ownership interest in Hexavest.*



## 13.

## Income Taxes

The provision for income taxes was \$48.6 million and \$36.7 million, or 36.3 percent and 37.3 percent of pre-tax income, for the three months ended January 31, 2018 and 2017, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act) was signed into law in the U.S. Among other significant changes, the Tax Act reduced the statutory federal income tax rate for U.S. corporate taxpayers from a maximum of 35 percent to 21 percent and required the deemed repatriation of foreign earnings not previously subject to U.S. taxation. Because the lower federal income tax rate took effect two months into the Company's fiscal year, a blended federal tax rate of 23.3 percent applies to the Company for fiscal 2018.

The Company's income tax provision for the first quarter of fiscal 2018 includes a non-recurring charge of \$24.7 million to reflect the estimated effect of the Tax Act. The non-recurring charge is considered to be a provisional estimate under the U.S. Securities and Exchange Commission Staff Accounting Bulletin 118 (SAB 118) and, based on current interpretation of the tax law changes, includes \$21.7 million from the revaluation of the Company's deferred tax assets and liabilities, and \$3.0 million for the deemed repatriation of foreign-sourced net earnings not previously subject to U.S. taxation. The increase in the Company's effective tax rate for the first quarter of fiscal 2018 resulting from this charge was partially offset by an income tax benefit of \$11.9 million related to the exercise of stock options and vesting of restricted stock during the period, and \$2.9 million related to the net income attributable to redeemable non-controlling interests and other beneficial interests, which is not taxable to the Company. The following table reconciles the statutory federal income tax rate to the Company's effective tax rate for the first quarter of fiscal 2018:

|                                                                            | Three Months Ended<br>January 31, 2018 |   |
|----------------------------------------------------------------------------|----------------------------------------|---|
| Statutory U.S. federal income tax rate <sup>(1)</sup>                      | 23.3                                   | % |
| State income taxes for current year, net of federal income tax benefits    | 4.3                                    | % |
| Net income attributable to non-controlling and other beneficial interests  | -1.8                                   | % |
| Other items                                                                | 0.9                                    | % |
| Operating effective income tax rate                                        | 26.7                                   | % |
| Non-recurring impact of U.S. tax reform                                    | 18.4                                   | % |
| Net excess tax benefits from stock-based compensation plans <sup>(2)</sup> | -8.8                                   | % |
| Effective income tax rate                                                  | 36.3                                   | % |

*Statutory U.S. federal income tax rate is a blend of 35 percent and 21 percent based on the number of days in the*

*(1) Company's fiscal year before and after the January 1, 2018 effective date of the reduction in the federal corporate income tax rate pursuant to the Tax Act.*

*(2) This amount reflects the impact of Accounting Standard Update 2016-09, Improvements to Employee Share-Based Payment Accounting, which was adopted in the first quarter of fiscal 2018. The Company anticipates that the adoption of this guidance may cause fluctuations in the Company's effective tax rate, particularly in the first quarter*

*of each fiscal year, when most of the Company's annual stock-based awards vest.*

The Company continues to carefully evaluate the impact of the Tax Act, certain provisions of which will not take effect for the Company until fiscal 2019, including, but not limited to, the global intangible low-taxed income, foreign-derived intangible income and base erosion anti-abuse tax provisions. Under the guidance

issued by the Security and Exchange Commission SAB 118, no provisional estimate has been recorded for these items, as our accounting for these elements of the Tax Act is incomplete.

No valuation allowance has been recorded for deferred tax assets, reflecting management's belief that all deferred tax assets will be utilized.

As of January 31, 2018, the Company considers the undistributed earnings of certain foreign subsidiaries to be indefinitely reinvested in foreign operations; however, as a result of the Tax Act, an estimated tax of \$3.0 was recorded in the quarter on these earnings. The calculation of this non-recurring charge is based on the Tax Act, guidance issued by the Internal Revenue Service and our interpretation of this information. The Company anticipates additional guidance will be issued by the Internal Revenue Service and continues to monitor interpretative developments. As a result, this estimated tax charge may change. In light of the changes contained in the Tax Act and as additional guidance becomes available, the Company may reconsider its repatriation policy.

The Company is generally no longer subject to income tax examinations by U.S. federal, state, local or non-U.S. taxing authorities for fiscal years prior to fiscal 2014.

#### 14. Non-controlling and Other Beneficial Interests

The components of net income attributable to non-controlling and other beneficial interests for the three months ended January 31, 2018 and 2017 were as follows:

| (in thousands)                                                            | Three Months Ended<br>January 31, |             |
|---------------------------------------------------------------------------|-----------------------------------|-------------|
|                                                                           | 2018                              | 2017        |
| Consolidated sponsored funds                                              | \$ (6,300 )                       | \$ 15       |
| Majority-owned subsidiaries                                               | (4,155 )                          | (3,718 )    |
| Non-controlling interest value adjustments <sup>(1)</sup>                 | -                                 | 73          |
| Net income attributable to non-controlling and other beneficial interests | \$ (10,455 )                      | \$ (3,630 ) |

<sup>(1)</sup>Relates to non-controlling interests redeemable at other than fair value.

# 15. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), net of tax, are as follows:

| (in thousands)                                               | Unamortized<br>Net Gains<br>(Losses) on<br>Cash Flow<br>Hedges <sup>(1)</sup> | Net Unrealized<br>Gains (Losses)<br>on<br>Available-for-Sale<br>Investments <sup>(2)</sup> | Foreign<br>Currency<br>Translation<br>Adjustments | Total      |
|--------------------------------------------------------------|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|---------------------------------------------------|------------|
| Balance at October 31, 2017                                  | \$ 301                                                                        | \$ 4,128                                                                                   | \$ (51,903 )                                      | \$(47,474) |
| Other comprehensive income, before reclassifications and tax | -                                                                             | 962                                                                                        | 12,085                                            | 13,047     |
| Tax impact                                                   | -                                                                             | (242 )                                                                                     | -                                                 | (242 )     |
| Reclassification adjustments, before tax                     | (33 )                                                                         | -                                                                                          | -                                                 | (33 )      |
| Tax impact                                                   | 8                                                                             | -                                                                                          | -                                                 | 8          |
| Net current period other comprehensive income (loss)         | (25 )                                                                         | 720                                                                                        | 12,085                                            | 12,780     |
| Balance at January 31, 2018                                  | \$ 276                                                                        | \$ 4,848                                                                                   | \$ (39,818 )                                      | \$(34,694) |
| Balance at October 31, 2016                                  | \$ 687                                                                        | \$ 2,943                                                                                   | \$ (61,213 )                                      | \$(57,583) |
| Other comprehensive income, before reclassifications and tax | -                                                                             | 535                                                                                        | 5,797                                             | 6,332      |
| Tax impact                                                   | -                                                                             | (208 )                                                                                     | -                                                 | (208 )     |
| Reclassification adjustments, before tax                     | 6                                                                             | -                                                                                          | -                                                 | 6          |
| Tax impact                                                   | (2 )                                                                          | -                                                                                          | -                                                 | (2 )       |
| Net current period other comprehensive income                | 4                                                                             | 327                                                                                        | 5,797                                             | 6,128      |
| Balance at January 31, 2017                                  | \$ 691                                                                        | \$ 3,270                                                                                   | \$ (55,416 )                                      | \$(51,455) |

Amounts reclassified from accumulated other comprehensive income (loss), net of tax, represent the amortization of (1) net gains (losses) on qualifying derivative financial instruments designated as cash flow hedges over the life of the Company's senior notes into interest expense on the Consolidated Statements of Income.

Amounts reclassified from accumulated other comprehensive income (loss), net of tax, represent gains (losses) on (2) disposal of available-for-sale securities that were recorded in gains (losses) and other investment income, net, on the Consolidated Statements of Income.

## 16. Earnings per Share

The following table sets forth the calculation of earnings per basic and diluted share for the three months ended January 31, 2018 and 2017:

| (in thousands, except per share data)                     | Three Months Ended<br>January 31, |          |
|-----------------------------------------------------------|-----------------------------------|----------|
|                                                           | 2018                              | 2017     |
| Net income attributable to Eaton Vance Corp. shareholders | \$78,056                          | \$60,711 |
| Weighted-average shares outstanding – basic               | 115,282                           | 110,267  |
| Incremental common shares                                 | 8,659                             | 4,404    |
| Weighted-average shares outstanding – diluted             | 123,941                           | 114,671  |
| Earnings per share:                                       |                                   |          |
| Basic                                                     | \$0.68                            | \$0.55   |
| Diluted                                                   | \$0.63                            | \$0.53   |

Antidilutive common shares related to stock options and unvested restricted stock excluded from the computation of earnings per diluted share were approximately 1.8 million and 8.1 million shares for the three months ended January 31, 2018 and 2017, respectively.

## 17. Commitments and Contingencies

In the normal course of business, the Company enters into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants, information technology agreements, distribution agreements and service agreements. In certain circumstances, these indemnities in favor of third parties relate to service agreements entered into by investment funds advised by Eaton Vance Management, Boston Management and Research, or Calvert, all of which are direct or indirect wholly-owned subsidiaries of the Company. The Company has also agreed to indemnify its directors, officers and employees in accordance with the Company's Articles of Incorporation, as amended. Certain agreements do not contain any limits on the Company's liability and, therefore, it is not possible to estimate the Company's potential liability under these indemnities. In certain cases, the Company has recourse against third parties with respect to these indemnities. Further, the Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

The Company and its subsidiaries are subject to various legal proceedings. In the opinion of management, after discussions with legal counsel, the ultimate resolution of these matters will not have a material effect on the consolidated financial condition, results of operations or cash flows of the Company.

**18.**

**Related Party Transactions**

***Sponsored funds***

The Company is an investment adviser to, and has administrative agreements with, certain sponsored mutual funds, privately offered equity funds and closed-end funds for which employees of the Company are officers and/or directors. Revenues for services provided or related to these funds for the three months ended January 31, 2018 and 2017 are as follows:

|                           | Three Months Ended<br>January 31, |           |
|---------------------------|-----------------------------------|-----------|
| (in thousands)            | 2018                              | 2017      |
| Management fees           | \$255,714                         | \$214,749 |
| Distribution fees         | 19,787                            | 18,281    |
| Service fees              | 30,844                            | 28,911    |
| Shareholder services fees | 1,391                             | 702       |
| Other revenue             | 144                               | 514       |
| Total                     | \$307,880                         | \$263,157 |

For the three months ended January 31, 2018 and 2017, the Company had investment advisory agreements with certain sponsored funds pursuant to which the Company contractually waived \$4.4 million and \$3.7 million, respectively, of management fees it was otherwise entitled to receive.

Sales proceeds and net realized gains for the three months ended January 31, 2018 and 2017 from investments in sponsored funds classified as available-for-sale are as follows:

|                     | Three Months Ended<br>January 31, |          |
|---------------------|-----------------------------------|----------|
| (in thousands)      | 2018                              | 2017     |
| Proceeds from sales | \$ -                              | \$ 3,733 |
| Net realized gains  | 5                                 | 203      |

The Company bears the non-advisory expenses of certain sponsored funds for which it earns an all-in management fee and provides subsidies to startup and other smaller sponsored funds to enhance their competitiveness. For the three months ended January 31, 2018 and 2017, expenses of \$11.0 million and \$7.6 million, respectively, were incurred by the Company pursuant to these arrangements.

Included in management fees and other receivables at January 31, 2018 and October 31, 2017 are receivables due from sponsored funds of \$105.2 million and \$100.0 million, respectively. Included in accounts payable and accrued expenses at January 31, 2018 and October 31, 2017 are payables due to sponsored funds of \$2.0 million and \$1.7 million, respectively.

***Loan to affiliate***

On December 23, 2015, EVMC, a wholly owned subsidiary of the Company, loaned \$5.0 million to Hexavest under a term loan agreement to seed a new investment strategy. The loan renews automatically for an additional one-year period on each anniversary date unless written termination notice is provided by EVMC. The loan earns interest equal to the one-year Canadian Dollar Offered Rate plus 200 basis points, which is payable quarterly in arrears. Hexavest may prepay the loan in whole or in part at any time without penalty. During the three months ended January 31, 2018 and 2017, the Company recorded \$45,000 and \$40,000, respectively, of interest income related to the loan in gains (losses) and other investment income, net, on the Company's Consolidated Statement of Income. Interest due from Hexavest under this arrangement included in other assets on the Company's Consolidated Balance Sheets was \$17,000 and \$13,000 at January 31, 2018 and October 31, 2017, respectively.



***Hexavest agreements***

The Company has an agreement with Hexavest whereby the Company compensates Hexavest for sub-advisory services and Hexavest reimburses the Company for a portion of fund subsidies related to certain investment companies for which the Company is the investment adviser. During the three months ended January 31, 2018 and 2017, the Company paid Hexavest \$0.1 million in sub-advisory fees, and the Company received \$8,000 and \$0.1 million, respectively, from Hexavest for reimbursement of fund subsidies. As of January 31, 2018 and October 31, 2017, the Company did not have any amounts due to Hexavest under this arrangement.

In addition, the Company has an agreement with Hexavest whereby the Company is reimbursed for placement costs of certain institutional separately managed accounts. During the three months ended January 31, 2018 and 2017, the Company earned \$0.7 million and \$0.5 million under this arrangement, respectively. The net amount due from Hexavest under this arrangement, which is included in other assets on the Company's Consolidated Balance Sheets, was \$0.3 million at both January 31, 2018 and October 31, 2017.

***Employee loan program***

The Company has established an Employee Loan Program under which a program maximum of \$20.0 million is available for loans to officers (other than executive officers) and other key employees of the Company for purposes of financing the exercise of employee stock options. Loans outstanding under this program, which are full recourse in nature, are reflected as notes receivable from stock option exercises in shareholders' equity, and totaled \$10.5 million and \$11.1 million at January 31, 2018 and October 31, 2017, respectively.

**19. Geographic Information**

Revenues by principal geographic area for the three months ended January 31, 2018 and 2017 are as follows:

|                | Three Months Ended<br>January 31, |           |
|----------------|-----------------------------------|-----------|
| (in thousands) | 2018                              | 2017      |
| Revenue:       |                                   |           |
| U.S.           | \$404,399                         | \$340,560 |
| International  | 17,013                            | 14,399    |
| Total          | \$421,412                         | \$354,959 |



Long-lived assets by principal geographic area as of January 31, 2018 and October 31, 2017 are as follows:

| (in thousands)     | January 31,<br>2018 | October 31,<br>2017 |
|--------------------|---------------------|---------------------|
| Long-lived Assets: |                     |                     |
| U.S.               | \$ 47,235           | \$ 46,804           |
| International      | 2,457               | 2,185               |
| Total              | \$ 49,692           | \$ 48,989           |

International revenues and long-lived assets are attributed to countries based on the location in which revenues are earned.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

*This Item includes statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, intentions or strategies regarding the future. All statements, other than statements of historical facts, included in this Form 10-Q regarding our financial position, business strategy and other plans and objectives for future operations are forward-looking statements. The terms "may," "will," "could," "anticipate," "plan," "continue," "project," "intend," "estimate," "believe," "expect" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. Although we believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that they will prove to have been correct or that we will take any actions that may now be planned. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in the "Risk Factors" in Item 1A in our latest Annual Report on Form 10-K. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such factors. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*The discussion and analysis below should be read in conjunction with the consolidated financial statements appearing elsewhere in this report. Management has presumed that the readers of this interim financial information have read or have access to Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our Annual Report on Form 10-K for the year ended October 31, 2017.*

#### Overview

Our principal business is managing investment funds and providing investment management and advisory services to high-net-worth individuals and institutions. Our core strategy is to develop and sustain management expertise across a range of investment disciplines and to offer leading investment products and services through multiple distribution channels. In executing this strategy, we have developed broadly diversified investment management capabilities and a highly functional marketing, distribution and customer service organization. We measure our success as a Company based on investment performance delivered, reputation in the marketplace, progress achieving strategic objectives, employee development and satisfaction, business and financial results, and shareholder value created.

We conduct our investment management and advisory business through wholly- and majority-owned investment affiliates, which include: Eaton Vance Management, Parametric Portfolio Associates LLC (Parametric), Atlanta Capital Management Company, LLC (Atlanta Capital) and Calvert Research and Management (Calvert). We also offer investment management advisory services through minority-owned affiliate Hexavest Inc. (Hexavest).

Through Eaton Vance Management, Atlanta Capital, Calvert and our other affiliates, we manage active equity, income and alternative strategies across a range of investment styles and asset classes, including U.S. and global equities, floating-rate bank loans, municipal bonds, and global income, high-yield and investment grade bonds. Through Parametric, we manage a range of engineered alpha strategies, including systematic equity, systematic alternatives and managed options strategies. Through Parametric, we also provide portfolio implementation and overlay services, including tax-managed and non-tax-managed Custom Core equity

strategies, centralized portfolio management of multi-manager portfolios and customized exposure management services. We also oversee the management of, and distribute, investment funds sub-advised by unaffiliated third-party managers, including global, emerging market and regional equity and asset allocation strategies.

Our breadth of investment management capabilities supports a wide range of products and services offered to fund shareholders, retail managed account investors, institutional investors and high-net-worth clients. Our equity strategies encompass a diversity of investment objectives, risk profiles, income levels and geographic representation. Our income investment strategies cover a broad duration, geographic representation and credit quality range and encompass both taxable and tax-free investments. We also offer a range of alternative investment strategies, including commodity- and currency-based investments and a spectrum of absolute return strategies. Although we manage and distribute a wide range of investment products and services, we operate in one business segment, namely as an investment adviser to funds and separate accounts. As of January 31, 2018, we had \$449.2 billion in consolidated assets under management.

We distribute our funds and retail managed accounts principally through financial intermediaries. We have broad market reach, with distribution partners including national and regional broker-dealers, independent broker-dealers, registered investment advisors, banks and insurance companies. We support these distribution partners with a team of approximately 124 sales professionals covering U.S. and international markets.

We also commit significant resources to serving institutional and high-net-worth clients who access investment management services on a direct basis and through investment consultants. Through our wholly-and majority-owned affiliates and consolidated subsidiaries, we manage investments for a broad range of clients in the institutional and high-net-worth marketplace in the U.S. and internationally, including corporations, sovereign wealth funds, endowments, foundations, family offices and public and private employee retirement plans.

Our revenue is derived primarily from management, distribution and service fees received from Eaton Vance-, Parametric- and Calvert-branded funds and management fees received from separate accounts. Our fees are based primarily on the value of the investment portfolios we manage and fluctuate with changes in the total value and mix of assets under management. As a matter of course, investors in our sponsored open-end funds and separate accounts have the ability to redeem their investments at any time, without prior notice, and there are no material restrictions that would prevent them from doing so. Our major expenses are employee compensation, distribution-related expenses, service fee expense, facilities expense and information technology expense.

Our discussion and analysis of our financial condition, results of operations and cash flows is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related

disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to goodwill and intangible assets, income taxes, investments and stock-based compensation. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under current circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

## Business Developments

We are pursuing five primary strategic priorities to support our long-term growth. Those priorities are: (1) capitalizing on our investment performance leadership and distribution strengths to grow sales and gain market share in actively managed investment strategies; (2) extending the success we have had with our Custom Beta lineup of rules-based separately managed accounts; (3) becoming a more global company by building our investment and distribution capabilities outside the United States; (4) positioning NextShares<sup>TM</sup> exchange-traded managed funds (NextShares) to become the vehicle of choice for investors in actively managed funds in the U.S; and (5) leveraging our Calvert acquisition to lead the growth of responsible investing.

As of January 31, 2018, we had 63 U.S. mutual funds rated four or five stars by Morningstar<sup>TM</sup> for at least one class of shares, including 23 funds rated five stars for at least one class of shares. Although actively managed strategies as a whole are losing share to passive investments, the Company believes that top-performing active strategies can continue to grow, particularly in asset classes where competition versus passive alternatives is less acute. In the first quarter of fiscal 2018, net flows into the Company's active strategies totaled \$2.8 billion.

In the first quarter of fiscal 2018, we continued to experience growth in our Custom Beta Strategies, which include the Parametric Custom Core equity and Eaton Vance laddered municipal and corporate bond separate account offerings to the retail and high-net-worth markets. Compared to index mutual funds and exchange-traded funds, rules-based separately managed accounts can provide clients with greater ability to tailor their market exposures to achieve better tax outcomes and to reflect client-specified responsible investing criteria and desired portfolio tilts and exclusions. In the first quarter of fiscal 2018, net inflows into Parametric Custom Core and Eaton Vance laddered municipal and corporate bond strategies offered as retail managed accounts and high-net-worth separate accounts totaled \$2.9 billion.

Outside the United States, the Company continues to expand investment staff and commit additional client service and distribution resources to support business growth. On January 31, 2018, Eaton Vance Management (International) Limited (EVMI) announced an agreement to hire a five-person global fixed-income team in Frankfurt, Germany, which currently advises approximately \$0.8 billion in client mandates now assumed by Eaton Vance. In addition to providing portfolio advisory services for fixed-income accounts, EVMI's Frankfurt branch will focus on enhancing the service levels we can provide to clients across Europe.

Over the past several years, we have committed significant resources towards achieving commercial success of our NextShares fund structure. On November 20, 2017, together with UBS Financial Services Inc., we announced the availability of NextShares through the UBS brokerage platforms and UBS Strategic Advisor, a non-discretionary advisory program, which the Company believes will stimulate growth in NextShares managed assets.



As of the end of the first quarter of fiscal 2018, twelve NextShares funds from four different fund families were available in the marketplace. Three additional funds from two new sponsors were introduced in February 2018.

On December 30, 2016, we completed the purchase of substantially all of the business assets of Calvert Investments. The Calvert Funds are one of the largest and most diversified families of responsibly invested mutual funds, encompassing actively and passively managed equity, fixed income and asset allocation strategies managed in accordance with the Calvert Principles for Responsible Investment (Calvert Principles) or other responsible investment criteria. Responsible investing is a leading trend in asset management, appealing

to the growing universe of investors who seek both financial returns and positive societal impact from their investments. The Calvert Funds are now being offered through Eaton Vance Distributors, Inc. (EVD), with greatly expanded market reach. In the first quarter of fiscal 2018, net flows into Calvert Funds and Calvert-managed separate accounts, excluding assets sub-advised by other Eaton Vance affiliates, totaled \$0.5 billion. Excluding assets sub-advised by other Eaton Vance affiliates, Calvert assets under management increased to \$11.6 billion at January 31, 2018 from \$9.9 billion of managed assets acquired on December 30, 2016, an increase of 18 percent. Please see page 42 “Consolidated Assets under Management by Investment Affiliate,” for further information related to Calvert’s assets under management.

### Consolidated Assets under Management

Prevailing equity and income market conditions and investor sentiment affect the sales and redemptions of our investment products, managed asset levels, operating results and the recoverability of our investments. During the first quarter of fiscal 2018, the S&P 500 Index, a broad measure of U.S. equity market performance, had total returns of 9.5 percent and the MSCI Emerging Market Index, a broad measure of emerging market equity performance, had total returns of 11.1 percent. Over the same period, the Barclays U.S. Aggregate Bond Index, a broad measure of U.S. bond market performance, had total returns of -0.8 percent.

Consolidated assets under management of \$449.2 billion on January 31, 2018 increased \$85.5 billion, or 24 percent, from \$363.7 billion on January 31, 2017. The year-over-year increase in consolidated assets under management reflects net inflows of \$37.1 billion and market appreciation in managed assets of \$48.4 billion.

The following tables summarize our consolidated assets under management by investment mandate, investment vehicle and investment affiliate as of January 31, 2018 and 2017. Within the investment mandate table, the “Portfolio implementation” category consists of Parametric’s Custom Core equity strategies and centralized portfolio management services, and the “Exposure management” category consists of Parametric’s futures- and options-based customized exposure management services.

### Consolidated Assets under Management by Investment Mandate<sup>(1)</sup>

| (in millions)            | January 31, |       |           |       |       |        |   |   |
|--------------------------|-------------|-------|-----------|-------|-------|--------|---|---|
|                          | 2018        | % of  | 2017      | % of  | Total | Change | % | % |
|                          |             | Total |           | Total |       |        |   |   |
| Equity <sup>(2)(3)</sup> | \$ 122,595  | 27 %  | \$ 99,538 | 28 %  | 23    |        |   | % |

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|                                     |           |     |   |           |     |   |    |   |
|-------------------------------------|-----------|-----|---|-----------|-----|---|----|---|
| Fixed income <sup>(3)(4)</sup>      | 72,663    | 16  | % | 65,136    | 18  | % | 12 | % |
| Floating-rate income <sup>(3)</sup> | 39,793    | 9   | % | 34,051    | 9   | % | 17 | % |
| Alternative <sup>(3)</sup>          | 13,248    | 3   | % | 10,775    | 3   | % | 23 | % |
| Portfolio implementation            | 110,442   | 25  | % | 80,129    | 22  | % | 38 | % |
| Exposure management                 | 90,488    | 20  | % | 74,110    | 20  | % | 22 | % |
| Total                               | \$449,229 | 100 | % | \$363,739 | 100 | % | 24 | % |

(1) *Consolidated Eaton Vance Corp. See table on page 49 for directly managed assets and flows of 49 percent-owned Hexavest Inc., which are not included in the table above.*

(2) *Includes balanced and multi-asset mandates.*

*In the second quarter of fiscal 2017, the Company reclassified certain managed assets among investment mandates.*

(3) *Prior period amounts have been revised for comparability purposes. The reclassification does not affect total consolidated assets under management for any period.*

(4) *Includes cash management mandates.*

Equity assets under management included \$41.7 billion and \$33.1 billion of assets managed for after-tax returns on January 31, 2018 and 2017, respectively. Portfolio implementation assets under management included \$77.5 billion and \$55.3 billion of assets managed for after-tax returns on January 31, 2018 and 2017, respectively. Fixed income assets included \$41.5 billion and \$35.6 billion of municipal income assets on January 31, 2018 and 2017, respectively.

**Consolidated Assets under Management by Investment Vehicle<sup>(1)</sup>**

| (in millions)                    | January 31, |       |            |       |       |        |   |   |
|----------------------------------|-------------|-------|------------|-------|-------|--------|---|---|
|                                  | 2018        | % of  | 2017       | % of  | Total | Change | % | % |
|                                  |             | Total |            | Total |       |        |   |   |
| Open-end funds <sup>(2)</sup>    | \$ 101,956  | 23 %  | \$ 89,127  | 25 %  |       | 14 %   |   |   |
| Closed-end funds <sup>(3)</sup>  | 25,424      | 6 %   | 23,796     | 7 %   |       | 7 %    |   |   |
| Private funds <sup>(4)</sup>     | 37,174      | 8 %   | 28,879     | 8 %   |       | 29 %   |   |   |
| Institutional separate accounts  | 169,406     | 37 %  | 139,309    | 38 %  |       | 22 %   |   |   |
| High-net-worth separate accounts | 43,693      | 10 %  | 30,514     | 8 %   |       | 43 %   |   |   |
| Retail managed accounts          | 71,576      | 16 %  | 52,114     | 14 %  |       | 37 %   |   |   |
| Total                            | \$ 449,229  | 100 % | \$ 363,739 | 100 % |       | 24 %   |   |   |

(1) Consolidated Eaton Vance Corp. See table on page 49 for directly managed assets and flows of 49 percent-owned Hexavest Inc., which are not included in the table above.

(2) Includes assets in NextShares funds.

(3) Includes unit investment trusts.

(4) Includes privately offered equity, fixed income and floating-rate income funds and CLO entities.

**Consolidated Assets under Management by Investment Affiliate<sup>(1)</sup>**

| (in millions)                            | January 31, |            |      |        |
|------------------------------------------|-------------|------------|------|--------|
|                                          | 2018        | 2017       | %    | Change |
| Eaton Vance Management <sup>(2)(3)</sup> | \$ 171,788  | \$ 148,562 | 16 % |        |
| Parametric <sup>(3)</sup>                | 241,653     | 185,770    | 30 % |        |
| Atlanta Capital <sup>(3)(4)</sup>        | 24,156      | 19,542     | 24 % |        |
| Calvert <sup>(4)</sup>                   | 11,632      | 9,865      | 18 % |        |
| Total                                    | \$ 449,229  | \$ 363,739 | 24 % |        |

(1) Consolidated Eaton Vance Corp. See table on page 49 for directly managed assets and flows of 49 percent-owned Hexavest Inc., which are not included in the table above.

(2)

*Includes managed assets of Eaton Vance-sponsored funds and separate accounts managed by Hexavest and unaffiliated third-party advisers under Eaton Vance supervision.*

*In the second quarter of fiscal 2017, the Company reclassified certain managed assets among investment affiliates.*

*(3) Prior period amounts have been revised for comparability purposes. The reclassification does not affect total consolidated assets under management for any period.*

*Consistent with the Company's policies for reporting the managed assets and flows of investment portfolios for which multiple Eaton Vance affiliates have management responsibilities, the managed assets of Atlanta Capital*

*(4) indicated above include the assets of Calvert Equity Portfolio, for which Atlanta Capital serves as sub-adviser. The total managed assets of Calvert, including assets sub-advised by other Eaton Vance affiliates, were \$14.0 billion and \$11.9 billion as of January 31, 2018 and 2017, respectively.*

Consolidated average assets under management presented in the following tables are derived by averaging the beginning and ending assets of each month over the period. The tables are intended to provide information useful in the analysis of our asset-based revenue and distribution expenses. Separate account management fees are generally calculated as a percentage of either beginning, average or ending quarterly assets. Fund management, distribution and service fees, as well as certain expenses, are generally calculated as a percentage of average daily assets.

***Consolidated Average Assets under Management by Investment Mandate<sup>(1)</sup>***

|                                     | Three Months Ended |            |          |   |
|-------------------------------------|--------------------|------------|----------|---|
|                                     | January 31,        |            | % Change |   |
| (in millions)                       | 2018               | 2017       |          |   |
| Equity <sup>(2)(3)</sup>            | \$ 117,444         | \$ 93,698  | 25       | % |
| Fixed income <sup>(3)(4)</sup>      | 71,686             | 61,626     | 16       | % |
| Floating-rate income <sup>(3)</sup> | 39,200             | 32,874     | 19       | % |
| Alternative <sup>(3)</sup>          | 12,833             | 10,637     | 21       | % |
| Portfolio implementation            | 104,227            | 75,875     | 37       | % |
| Exposure management                 | 88,104             | 70,230     | 25       | % |
| Total                               | \$ 433,494         | \$ 344,940 | 26       | % |

(1) Consolidated Eaton Vance Corp. See table on page 49 for directly managed assets and flows of 49 percent-owned Hexavest Inc., which are not included in the table above.

(2) Includes balanced and multi-asset mandates.

In fiscal 2017, the Company reclassified certain managed assets among investment mandates. Prior period amounts (3) have been revised for comparability purposes. The reclassification does not affect total consolidated average assets under management for any period.

(4) Includes cash management mandates.

***Consolidated Average Assets under Management by Investment Vehicle<sup>(1)</sup>***

|                                  | Three Months Ended |            |          |   |
|----------------------------------|--------------------|------------|----------|---|
|                                  | January 31,        |            | % Change |   |
| (in millions)                    | 2018               | 2017       |          |   |
| Open-end funds <sup>(2)</sup>    | \$ 99,412          | \$ 79,882  | 24       | % |
| Closed-end funds <sup>(3)</sup>  | 25,064             | 23,576     | 6        | % |
| Private funds <sup>(4)</sup>     | 35,762             | 28,142     | 27       | % |
| Institutional separate accounts  | 163,392            | 135,089    | 21       | % |
| High-net-worth separate accounts | 41,430             | 28,094     | 47       | % |
| Retail managed accounts          | 68,434             | 50,157     | 36       | % |
| Total                            | \$ 433,494         | \$ 344,940 | 26       | % |

- (1) *Consolidated Eaton Vance Corp. See table on page 49 for directly managed assets and flows of 49 percent-owned Hexavest Inc., which are not included in the table above.*
- (2) *Includes assets in NextShares funds.*
- (3) *Includes assets in unit investment trusts.*
- (4) *Includes assets in privately offered equity, fixed income and floating-rate income funds and CLO entities.*

## Consolidated Net Flows

Consolidated net inflows of \$7.1 billion in the first quarter of fiscal 2018 represented 7 percent annualized internal growth in managed assets (consolidated net inflows divided by beginning of period consolidated assets under management). For comparison, the Company had consolidated net inflows of \$7.8 billion in the first quarter of fiscal 2017, which represented 9 percent annualized internal growth in managed assets. On the basis of net contribution to management fee revenue, the Company's annualized internal revenue growth (calculated as the annualized management fees attributed to sales and other inflows less annualized management fees attributable to redemptions divided by beginning of period annualized management fees) was 5 percent in the first quarter of fiscal 2018 and 7 percent in the first quarter of fiscal 2017, as the management fee revenue contribution from new sales and other inflows during each period exceeded the management fee revenue lost from redemptions.

The following tables summarize our consolidated assets under management and asset flows by investment mandate and investment vehicle for the three months ended January 31, 2018 and 2017:



*Consolidated Assets under Management and Net Flows by Investment Mandate<sup>(1)</sup>*

| (in millions)                                                    | Three Months Ended |                 |                   |          |
|------------------------------------------------------------------|--------------------|-----------------|-------------------|----------|
|                                                                  | January 31,        |                 | %                 |          |
|                                                                  | 2018               | 2017            | Change            |          |
| Equity assets - beginning of period <sup>(2)(3)</sup>            | \$113,472          | \$89,981        | 26                | %        |
| Sales and other inflows                                          | 5,876              | 5,212           | 13                | %        |
| Redemptions/outflows                                             | (5,320 )           | (5,855 )        | -9                | %        |
| Net flows                                                        | 556                | (643 )          | NM <sup>(7)</sup> |          |
| Assets acquired <sup>(4)</sup>                                   | -                  | 5,704           | -100              | %        |
| Exchanges                                                        | 3                  | 44              | -93               | %        |
| Market value change                                              | 8,564              | 4,452           | 92                | %        |
| Equity assets - end of period                                    | <b>\$122,595</b>   | <b>\$99,538</b> | <b>23</b>         | <b>%</b> |
| Fixed income assets - beginning of period <sup>(3)(5)</sup>      | 70,797             | 60,607          | 17                | %        |
| Sales and other inflows <sup>(6)</sup>                           | 6,327              | 5,692           | 11                | %        |
| Redemptions/outflows                                             | (3,937 )           | (4,338 )        | -9                | %        |
| Net flows                                                        | 2,390              | 1,354           | 77                | %        |
| Assets acquired <sup>(4)</sup>                                   | -                  | 4,170           | -100              | %        |
| Exchanges                                                        | 18                 | (107 )          | NM                |          |
| Market value change                                              | (542 )             | (888 )          | -39               | %        |
| Fixed income assets - end of period                              | <b>\$72,663</b>    | <b>\$65,136</b> | <b>12</b>         | <b>%</b> |
| Floating-rate income assets - beginning of period <sup>(3)</sup> | 38,819             | 32,107          | 21                | %        |
| Sales and other inflows                                          | 2,274              | 4,970           | -54               | %        |
| Redemptions/outflows                                             | (1,655 )           | (3,306 )        | -50               | %        |
| Net flows                                                        | 619                | 1,664           | -63               | %        |
| Exchanges                                                        | (3 )               | 120             | NM                |          |
| Market value change                                              | 358                | 160             | 124               | %        |
| Floating-rate income assets - end of period                      | <b>\$39,793</b>    | <b>\$34,051</b> | <b>17</b>         | <b>%</b> |
| Alternative assets - beginning of period <sup>(3)</sup>          | 12,637             | 10,687          | 18                | %        |
| Sales and other inflows                                          | 1,714              | 1,098           | 56                | %        |
| Redemptions/outflows                                             | (1,034 )           | (940 )          | 10                | %        |
| Net flows                                                        | 680                | 158             | 330               | %        |
| Exchanges                                                        | (6 )               | (2 )            | 200               | %        |
| Market value change                                              | (63 )              | (68 )           | -7                | %        |
| Alternative assets - end of period                               | <b>\$13,248</b>    | <b>\$10,775</b> | <b>23</b>         | <b>%</b> |
| Portfolio implementation assets - beginning of period            | 99,615             | 71,426          | 39                | %        |
| Sales and other inflows                                          | 5,108              | 6,485           | -21               | %        |
| Redemptions/outflows                                             | (3,755 )           | (3,086 )        | 22                | %        |
| Net flows                                                        | 1,353              | 3,399           | -60               | %        |
| Exchanges                                                        | (16 )              | -               | NM                |          |
| Market value change                                              | 9,490              | 5,304           | 79                | %        |
| Portfolio implementation assets - end of period                  | <b>\$110,442</b>   | <b>\$80,129</b> | <b>38</b>         | <b>%</b> |
| Exposure management assets - beginning of period                 | 86,976             | 71,572          | 22                | %        |
| Sales and other inflows                                          | 22,652             | 21,456          | 6                 | %        |
| Redemptions/outflows                                             | (21,155 )          | (19,580 )       | 8                 | %        |

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|                                                     |                  |                  |      |   |
|-----------------------------------------------------|------------------|------------------|------|---|
| Net flows                                           | 1,497            | 1,876            | -20  | % |
| Market value change                                 | 2,015            | 662              | 204  | % |
| Exposure management assets - end of period          | <b>\$90,488</b>  | <b>\$74,110</b>  | 22   | % |
| Total assets under management - beginning of period | 422,316          | 336,380          | 26   | % |
| Sales and other inflows <sup>(6)</sup>              | 43,951           | 44,913           | -2   | % |
| Redemptions/outflows                                | (36,856 )        | (37,105 )        | -1   | % |
| Net flows                                           | 7,095            | 7,808            | -9   | % |
| Assets acquired <sup>(4)</sup>                      | -                | 9,874            | -100 | % |
| Exchanges                                           | (4 )             | 55               | NM   |   |
| Market value change                                 | 19,822           | 9,622            | 106  | % |
| Total assets under management - end of period       | <b>\$449,229</b> | <b>\$363,739</b> | 24   | % |

- (1) *Consolidated Eaton Vance Corp. See table on page 49 for directly managed assets and flows of 49 percent-owned Hexavest Inc., which are not included in the table above.*
- (2) *Includes balanced and multi-asset mandates.*  
*In the second quarter of fiscal 2017, the Company reclassified certain managed assets and flows among investment*
- (3) *mandates. Prior period amounts have been revised for comparability purposes. The reclassification does not affect total consolidated assets under management or total consolidated net flows for any period.*
- Represents managed assets gained in the acquisition of the business assets of Calvert Investments on December 30,*
- (4) *2016. Equity assets acquired and total assets acquired exclude \$2.1 billion of managed assets of Calvert Equity Portfolio, sub-advised by Atlanta Capital and previously included in the Company's consolidated assets under management.*
- (5) *Includes cash management mandates.*
- (6) *Includes \$0.8 million of managed assets gained in assuming the fixed income business assets of the former Oechsle International Advisors, LLC on January 31, 2018.*
- (7) *Not meaningful (NM).*

*Consolidated Assets under Management and Net Flows by Investment Vehicle<sup>(1)</sup>*

| (in millions)                                          | Three Months Ended |                   |           |          |
|--------------------------------------------------------|--------------------|-------------------|-----------|----------|
|                                                        | January 31,        |                   | %         |          |
|                                                        | 2018               | 2017              | Change    |          |
| Fund assets - beginning of period <sup>(2)</sup>       | \$ 156,853         | \$ 125,722        | 25        | %        |
| Sales and other inflows                                | 10,516             | 10,969            | -4        | %        |
| Redemptions/outflows                                   | (8,814 )           | (9,404 )          | -6        | %        |
| Net flows                                              | 1,702              | 1,565             | 9         | %        |
| Assets acquired <sup>(3)</sup>                         | -                  | 9,821             | -100      | %        |
| Exchanges <sup>(4)</sup>                               | (4 )               | 2,115             | NM        |          |
| Market value change                                    | 6,003              | 2,579             | 133       | %        |
| Fund assets - end of period                            | <b>\$ 164,554</b>  | <b>\$ 141,802</b> | <b>16</b> | <b>%</b> |
| Institutional separate accounts - beginning of period  | 159,986            | 136,451           | 17        | %        |
| Sales and other inflows <sup>(5)</sup>                 | 25,681             | 24,633            | 4         | %        |
| Redemptions/outflows                                   | (23,334 )          | (23,449 )         | 0         | %        |
| Net flows                                              | 2,347              | 1,184             | 98        | %        |
| Assets acquired <sup>(3)</sup>                         | -                  | 40                | -100      | %        |
| Exchanges <sup>(4)</sup>                               | 80                 | (2,055 )          | NM        |          |
| Market value change                                    | 6,993              | 3,689             | 90        | %        |
| Institutional separate accounts - end of period        | <b>\$ 169,406</b>  | <b>\$ 139,309</b> | <b>22</b> | <b>%</b> |
| High-net-worth separate accounts - beginning of period | 39,715             | 25,806            | 54        | %        |
| Sales and other inflows                                | 2,063              | 4,563             | -55       | %        |
| Redemptions/outflows                                   | (1,461 )           | (1,609 )          | -9        | %        |
| Net flows                                              | 602                | 2,954             | -80       | %        |
| Exchanges                                              | (37 )              | 14                | NM        |          |
| Market value change                                    | 3,413              | 1,740             | 96        | %        |
| High-net-worth separate accounts - end of period       | <b>\$ 43,693</b>   | <b>\$ 30,514</b>  | <b>43</b> | <b>%</b> |
| Retail managed accounts - beginning of period          | 65,762             | 48,401            | 36        | %        |
| Sales and other inflows <sup>(5)</sup>                 | 5,691              | 4,748             | 20        | %        |
| Redemptions/outflows                                   | (3,247 )           | (2,643 )          | 23        | %        |
| Net flows                                              | 2,444              | 2,105             | 16        | %        |
| Assets acquired <sup>(3)</sup>                         | -                  | 13                | -100      | %        |
| Exchanges                                              | (43 )              | (19 )             | 126       | %        |
| Market value change                                    | 3,413              | 1,614             | 111       | %        |
| Retail managed accounts - end of period                | <b>\$ 71,576</b>   | <b>\$ 52,114</b>  | <b>37</b> | <b>%</b> |
| Total assets under management - beginning of period    | 422,316            | 336,380           | 26        | %        |
| Sales and other inflows                                | 43,951             | 44,913            | -2        | %        |
| Redemptions/outflows                                   | (36,856 )          | (37,105 )         | -1        | %        |
| Net flows                                              | 7,095              | 7,808             | -9        | %        |
| Assets acquired <sup>(3)</sup>                         | -                  | 9,874             | -100      | %        |
| Exchanges                                              | (4 )               | 55                | NM        |          |
| Market value change                                    | 19,822             | 9,622             | 106       | %        |
| Total assets under management - end of period          | <b>\$ 449,229</b>  | <b>\$ 363,739</b> | <b>24</b> | <b>%</b> |

(1) *Consolidated Eaton Vance Corp. See table on page 49 for directly managed assets and flows of 49 percent-owned Hexavest Inc., which are not included in the table above.*

(2) *Includes assets in cash management funds.*

*Represents managed assets gained in the acquisition of the business assets of Calvert Investments on December 30, 2016. Fund assets acquired and total assets acquired exclude \$2.1 billion of managed assets of Calvert Equity*

(3) *Portfolio, which was sub-advised by Atlanta Capital prior to the acquisition and previously included in the Company's consolidated managed assets as institutional separate accounts.*

- Reflects the reclassification in the first quarter of fiscal 2017 from institutional separate accounts to funds of \$2.1*  
*(4) billion of managed assets of Calvert Equity Portfolio, sub-advised by Atlanta Capital and previously included in the*  
*Company's consolidated institutional separate accounts.*
- (5) Includes \$0.8 million of managed assets gained in assuming the fixed income business assets of the former Oechsle*  
*International Advisors, LLC on January 31, 2018.*

As of January 31, 2018, the Company's 49 percent-owned affiliate Hexavest managed \$16.7 billion of client assets, an increase of 16 percent from \$14.5 billion of managed assets on January 31, 2017. Other than Eaton Vance-sponsored funds for which Hexavest is adviser or sub-adviser, the managed assets of Hexavest are not included in Eaton Vance consolidated totals.

The following table summarizes assets under management and asset flow information for Hexavest for the three months ended January 31, 2018 and 2017:

### Hexavest Assets under Management and Net Flows

| (in millions)                                                                  | Three Months Ended  |           |             |   |
|--------------------------------------------------------------------------------|---------------------|-----------|-------------|---|
|                                                                                | January 31,<br>2018 | 2017      | %<br>Change |   |
| Eaton Vance distributed:                                                       |                     |           |             |   |
| Eaton Vance sponsored funds - beginning of period <sup>(1)</sup>               | \$ 182              | \$ 231    | -21         | % |
| Sales and other inflows                                                        | 5                   | 20        | -75         | % |
| Redemptions/outflows                                                           | (6 )                | (8 )      | -25         | % |
| Net flows                                                                      | (1 )                | 12        | NM          |   |
| Market value change                                                            | 12                  | 12        | 0           | % |
| Eaton Vance sponsored funds - end of period                                    | \$ 193              | \$ 255    | -24         | % |
| Eaton Vance distributed separate accounts - beginning of period <sup>(2)</sup> | \$ 3,092            | \$ 2,492  | 24          | % |
| Sales and other inflows                                                        | 78                  | 149       | -48         | % |
| Redemptions/outflows                                                           | (115 )              | (54 )     | 113         | % |
| Net flows                                                                      | (37 )               | 95        | NM          |   |
| Market value change                                                            | 209                 | 79        | 165         | % |
| Eaton Vance distributed separate accounts - end of period                      | \$ 3,264            | \$ 2,666  | 22          | % |
| Total Eaton Vance distributed - beginning of period                            | \$ 3,274            | \$ 2,723  | 20          | % |
| Sales and other inflows                                                        | 83                  | 169       | -51         | % |
| Redemptions/outflows                                                           | (121 )              | (62 )     | 95          | % |
| Net flows                                                                      | (38 )               | 107       | NM          |   |
| Market value change                                                            | 221                 | 91        | 143         | % |
| Total Eaton Vance distributed - end of period                                  | \$ 3,457            | \$ 2,921  | 18          | % |
| Hexavest directly distributed - beginning of period <sup>(3)</sup>             | \$ 12,748           | \$ 11,021 | 16          | % |
| Sales and other inflows                                                        | 165                 | 327       | -50         | % |
| Redemptions/outflows                                                           | (500 )              | (404 )    | 24          | % |
| Net flows                                                                      | (335 )              | (77 )     | 335         | % |
| Market value change                                                            | 858                 | 594       | 44          | % |
| Hexavest directly distributed - end of period                                  | \$ 13,271           | \$ 11,538 | 15          | % |
| Total Hexavest assets - beginning of period                                    | \$ 16,022           | \$ 13,744 | 17          | % |
| Sales and other inflows                                                        | 248                 | 496       | -50         | % |
| Redemptions/outflows                                                           | (621 )              | (466 )    | 33          | % |
| Net flows                                                                      | (373 )              | 30        | NM          |   |
| Market value change                                                            | 1,079               | 685       | 58          | % |
| Total Hexavest assets - end of period                                          | \$ 16,728           | \$ 14,459 | 16          | % |

Managed assets and flows of Eaton Vance-sponsored pooled investment vehicles for which Hexavest is adviser or (1)sub-adviser. Eaton Vance receives management fees (and in some cases also distribution fees) on these assets, which are included in Eaton Vance's consolidated assets under management and flows.

Managed assets and flows of Eaton Vance-distributed separate accounts managed by Hexavest. Eaton Vance (2)receives distribution fees, but not management fees, on these assets, which are not included in Eaton Vance's consolidated assets under management and flows.

(3)

*Managed assets and flows of pre-transaction Hexavest clients and post-transaction Hexavest clients in Canada. Eaton Vance receives no management fees or distribution fees on these assets, which are not included in Eaton Vance's consolidated assets under management and flows.*



## Results of Operations

In evaluating operating performance, we consider net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share, which are calculated on a basis consistent with U.S. GAAP, as well as adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share, both of which are internally derived non-U.S. GAAP performance measures.

Management believes that certain non-U.S. GAAP financial measures, specifically, adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share, while not a substitute for U.S. GAAP financial measures, may be effective indicators of the Company's performance over time. Non-U.S. GAAP financial measures should not be construed to be superior to U.S. GAAP measures. In calculating these non-U.S. GAAP financial measures, net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share are adjusted to exclude items management deems non-operating or non-recurring in nature or otherwise outside the ordinary course of business. These adjustments may include the add back of adjustments made in connection with changes in the estimated redemption value of non-controlling interests in our affiliates redeemable at other than fair value (non-controlling interest value adjustments) and, when applicable, other items such as closed-end fund structuring fees, special dividends, costs associated with retiring debt, tax settlements, tax impact of stock-based compensation shortfall or windfall and non-recurring charges for the effect of the U.S. tax law changes. Management and our Board of Directors, as well as certain of our outside investors, consider these adjusted numbers a measure of the Company's underlying operating performance. Management believes adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share are important indicators of our operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results, and may provide a useful baseline for analyzing trends in our underlying business.

The following table provides a reconciliation of net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share to adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share, respectively, for the three months ended January 31, 2018 and 2017:

| (in thousands, except per share figures)                                      | Three Months Ended |           |          |   |
|-------------------------------------------------------------------------------|--------------------|-----------|----------|---|
|                                                                               | January 31, 2018   | 2017      | % Change |   |
| Net income attributable to Eaton Vance Corp. shareholders                     | \$ 78,056          | \$ 60,711 | 29       | % |
| Revaluation of deferred tax amounts <sup>(1)</sup>                            | 21,653             | -         | NM       |   |
| Loss on write-off of Hexavest option, net of tax <sup>(2)</sup>               | 5,660              | -         | NM       |   |
| Repatriation of undistributed earnings of foreign subsidiaries <sup>(3)</sup> | 3,014              | -         | NM       |   |
| Net excess tax benefit from stock-based compensation plans <sup>(4)</sup>     | (11,862 )          | -         | NM       |   |
| Non-controlling interest value adjustments <sup>(5)</sup>                     | -                  | (73 )     | -100     | % |
| Adjusted net income attributable to Eaton Vance Corp. shareholders            | \$ 96,521          | \$ 60,638 | 59       | % |
| Earnings per diluted share                                                    | \$ 0.63            | \$ 0.53   | 19       | % |
| Revaluation of deferred tax amounts                                           | 0.17               | -         | NM       |   |
| Loss on write-off of Hexavest option, net of tax                              | 0.05               | -         | NM       |   |
| Repatriation of undistributed earnings of foreign subsidiaries                | 0.02               | -         | NM       |   |
| Net excess tax benefit from stock-based compensation plans                    | (0.09 )            | -         | NM       |   |
| Non-controlling interest value adjustments                                    | -                  | -         | NM       |   |
| Adjusted earnings per diluted share                                           | \$ 0.78            | \$ 0.53   | 47       | % |

*Reflects the revaluation of deferred tax assets and deferred tax liabilities resulting from the enactment of the Tax*

<sup>(1)</sup>*Act on December 22, 2017. Please see page 58 "Income Taxes," for a further discussion of the revaluation of deferred tax amounts.*

<sup>(2)</sup>*Reflects the \$6.5 million loss recognized upon expiration of the Company's option to acquire an additional 26 percent ownership interest in Hexavest, net of the associated impact to taxes of \$0.8 million.*

*Reflects the recognition of incremental tax expense related to the deemed repatriation of foreign earnings*

<sup>(3)</sup>*considered to be indefinitely reinvested abroad and not previously subject to U.S. taxation. Please see page 58 "Income Taxes," for a further discussion of the repatriation of undistributed earnings of foreign subsidiaries.*

*Reflects the impact of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which was*

<sup>(4)</sup>*adopted in the first quarter of fiscal 2018. Please see page 58 "Income Taxes," for a further discussion of the adoption of ASU 2016-09.*

<sup>(5)</sup>*Please see page 59 "Net Income Attributable to Non-controlling and Other Beneficial Interests," for a further discussion of the non-controlling interest value adjustments referenced above.*

The 29 percent increase in net income attributable to Eaton Vance Corp. shareholders in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 is attributable primarily to the following:

- An increase in revenue of \$66.5 million, or 19 percent, primarily reflecting growth in average consolidated assets under management, partially offset by lower consolidated average annualized management fee rates.
- An increase in expenses of \$36.1 million, or 14 percent, reflecting increases in compensation, distribution expense, service fee expense, amortization of deferred sales commissions, fund-related expenses and other operating expenses. The increase in compensation expense is driven by higher operating income-based bonus accruals, higher salaries and benefits associated with increased headcount, and higher stock-based compensation, partially offset by a decrease in sales-based bonus accruals. The increase in non-compensation-related costs, including service and distribution fees,

fund subsidies, sub-advisory fees paid by the Company, and fund expenses borne by the Company on funds for which it earns an all-in management fee, is attributable primarily to the increase in average fund assets under management subject to these expenses. The increase in other corporate expenses is attributable to higher facilities and other corporate expenses associated with a full quarter of Calvert's

expenses in the first quarter of fiscal 2018, as well as an increase in information technology spending year-over-year.

A \$2.1 million increase in gains and other investment income, net, primarily related to an increase in interest income, partially offset by an increase in net losses on investments and derivatives driven by the \$6.5 million loss recognized in the first quarter of fiscal 2018 recognized upon expiration of the Company's option to acquire an additional 26 percent ownership interest in 49 percent-owned Hexavest under the terms of the option agreement entered into when the Company acquired its Hexavest position in 2012.

A \$1.6 million increase in income contribution from a consolidated warehouse-stage collateralized loan obligation (CLO) entity that the Company began consolidating in the fourth quarter of fiscal 2017.

An increase in income taxes of \$11.9 million, primarily related to a non-recurring charge of \$24.7 million to reflect the estimated effect of the changes to the U.S. tax laws enacted under the Tax Cuts and Jobs Act (the Tax Act), partially offset by \$11.9 million of net excess tax benefit from stock-based compensation plans recognized from the exercise of stock options and vesting of restricted stock awards during the period.

An increase in net income attributable to non-controlling and other beneficial interests of \$6.8 million, primarily reflecting an increase in net income attributable to non-controlling interest holders in the Company's consolidated sponsored funds and majority owned subsidiaries.

Weighted average diluted shares outstanding increased by 9.3 million shares, or 8 percent, in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017, primarily reflecting an increase in the dilutive effect of in-the-money options and unvested restricted stock, a decrease in the number of shares repurchased and an increase in the number of shares issued upon the vesting of restricted stock and employee option exercises.

## Revenue

The following table shows our management fees, distribution and underwriter fees, service fees and other revenue for the three months ended January 31, 2018 and 2017:

| (in thousands)                    | Three Months Ended |           |        |   |
|-----------------------------------|--------------------|-----------|--------|---|
|                                   | January 31,        |           | %      |   |
|                                   | 2018               | 2017      | Change |   |
| Management fees                   | \$366,367          | \$304,653 | 20     | % |
| Distribution and underwriter fees | 20,493             | 18,959    | 8      | % |
| Service fees                      | 30,844             | 28,911    | 7      | % |
| Other revenue                     | 3,708              | 2,436     | 52     | % |
| Total revenue                     | \$421,412          | \$354,959 | 19     | % |

## Management fees

The increase in management fees in the first quarter of fiscal 2018 from the same period a year earlier is attributable primarily to the 26 percent increase in average consolidated assets under management, partially offset by a decline in our average annualized management fee rate. Excluding performance-based fees, average annualized management fee rates decreased to 33.7 basis points in the first quarter of fiscal 2018 from 35.1 basis points in the first quarter of fiscal 2017. Performance-based fees were -\$0.5 million and \$0.2 million in the first quarter of fiscal 2018 and 2017, respectively.

Excluding the impact of performance-based fees, the primary drivers of our average annualized management fee rates are the mix of our assets by investment mandate and distribution channel.

Consolidated average management fee rates, excluding performance-based fees, for the three months ended January 31, 2018 and 2017 were as follows:

| (in basis points on average managed assets)                     | Three Months Ended<br>January 31, |      | %<br>Change |   |
|-----------------------------------------------------------------|-----------------------------------|------|-------------|---|
|                                                                 | 2018                              | 2017 |             |   |
| Equity <sup>(1)(2)</sup>                                        | 60.4                              | 62.8 | -4          | % |
| Fixed income <sup>(1)(2)</sup>                                  | 36.6                              | 38.9 | -6          | % |
| Floating-rate income <sup>(1)(2)</sup>                          | 51.4                              | 52.0 | -1          | % |
| Alternatives <sup>(1)(2)</sup>                                  | 67.8                              | 62.9 | 8           | % |
| Portfolio implementation <sup>(1)</sup>                         | 15.0                              | 14.6 | 3           | % |
| Exposure management <sup>(1)</sup>                              | 5.0                               | 5.2  | -4          | % |
| Average annualized effective management fee rate <sup>(1)</sup> | 33.7                              | 35.1 | -4          | % |

*In the second quarter of fiscal 2017, the Company modified its methodology for calculating average annualized management fee rates for quarterly periods to remove the effect of variations in the number of days in a given quarter. The above presentation of prior period results has been revised for comparability purposes.*

*In the second quarter of fiscal 2017, the Company reclassified among investment mandates certain managed assets. Prior period amounts have been revised for comparability purposes.*

Average assets under management by investment mandate to which these fee rates apply can be found in the table, "Consolidated Average Assets under Management by Investment Mandate," on page 43.

#### *Distribution and underwriter fees*

Distribution fees, underwriter fees and other distribution income for the three months ended January 31, 2018 and 2017 were as follows:

| (in thousands)                          | Three Months Ended  |           |             |   |
|-----------------------------------------|---------------------|-----------|-------------|---|
|                                         | January 31,<br>2018 | 2017      | %<br>Change |   |
| Distribution fees:                      |                     |           |             |   |
| Class A                                 | \$ 871              | \$ 164    | 431         | % |
| Class B                                 | 124                 | 245       | -49         | % |
| Class C                                 | 14,851              | 15,136    | -2          | % |
| Class F                                 | 404                 | 123       | 228         | % |
| Class N                                 | 32                  | 15        | 113         | % |
| Class R                                 | 467                 | 379       | 23          | % |
| Private funds                           | 2,007               | 1,245     | 61          | % |
| Total distribution fees                 | \$ 18,756           | \$ 17,307 | 8           | % |
| Underwriter fees                        | 672                 | 558       | 20          | % |
| Other distribution income               | 1,065               | 1,094     | -3          | % |
| Total distribution and underwriter fees | \$ 20,493           | \$ 18,959 | 8           | % |

### *Service fees*

Service fee revenue increased 7 percent in the first quarter of fiscal 2018 from the same period a year earlier, primarily reflecting an increase in average assets under management in funds and fund share classes subject to service fees.

### *Other revenue*

Other revenue, which consists primarily of shareholder servicing fees, miscellaneous dealer income and Hexavest-related distribution and service revenue, increased 52 percent in the first quarter of fiscal 2018 from the first quarter of fiscal 2017, reflecting increases in each of the principal components.

### *Expenses*

Operating expenses increased by 14 percent, or \$36.1 million, in the first quarter of fiscal 2018 from the same period a year earlier, reflecting increases in compensation, distribution expense, service fee expense, amortization of deferred sales commissions, fund-related expenses and other operating expenses. Expenses in connection with the Company's NextShares initiative totaled approximately \$1.9 million in the first quarter of fiscal 2018, a decrease of 5 percent from \$2.0 million in the first quarter of fiscal 2017.

The following table shows our operating expenses for the three months ended January 31, 2018 and 2017:





| (in thousands)                             | Three Months Ended<br>January 31, |            | %<br>Change |   |
|--------------------------------------------|-----------------------------------|------------|-------------|---|
|                                            | 2018                              | 2017       |             |   |
| Compensation and related costs:            |                                   |            |             |   |
| Cash compensation                          | \$ 130,397                        | \$ 114,836 | 14          | % |
| Stock-based compensation                   | 24,651                            | 20,299     | 21          | % |
| Total compensation and related costs       | 155,048                           | 135,135    | 15          | % |
| Distribution expense                       | 35,640                            | 31,117     | 15          | % |
| Service fee expense                        | 28,562                            | 26,927     | 6           | % |
| Amortization of deferred sales commissions | 4,277                             | 3,854      | 11          | % |
| Fund-related expenses                      | 14,846                            | 10,875     | 37          | % |
| Other expenses                             | 47,239                            | 41,615     | 14          | % |
| Total expenses                             | \$ 285,612                        | \$ 249,523 | 14          | % |

*Compensation and related costs*

The following table shows our compensation and related costs for the three months ended January 31, 2018 and 2017:

| (in thousands)                      | Three Months Ended<br>January 31, |            | %<br>Change |   |
|-------------------------------------|-----------------------------------|------------|-------------|---|
|                                     | 2018                              | 2017       |             |   |
| Base salaries and employee benefits | \$ 68,292                         | \$ 59,533  | 15          | % |
| Stock-based compensation            | 24,651                            | 20,299     | 21          | % |
| Operating income-based incentives   | 43,587                            | 34,358     | 27          | % |
| Sales incentives                    | 17,876                            | 20,236     | -12         | % |
| Other compensation expense          | 642                               | 709        | -9          | % |
| Total                               | \$ 155,048                        | \$ 135,135 | 15          | % |

Compensation expense increased by \$19.9 million, or 15 percent, in the first quarter of fiscal 2018 from the same period a year earlier. The increase was driven primarily by: (i) an \$8.8 million increase in base salaries and employee benefits, reflecting higher headcount, fiscal year-end compensation increases and a corresponding increase in employee benefits; (ii) a \$4.3 million increase in stock-based compensation expense, primarily due to year-over-year increases in stock-based compensation awards; (iii) and a \$9.2 million increase in operating income-based bonus accruals due to higher pre-bonus adjusted operating income. The increases were partially offset by a \$2.4 million decrease in sales-based bonus accruals resulting from a decrease in compensation-eligible sales.

*Distribution expense*

The following table shows our distribution expense for the three months ended January 31, 2018 and 2017:



| (in thousands)                               | Three Months Ended  |           |             |   |
|----------------------------------------------|---------------------|-----------|-------------|---|
|                                              | January 31,<br>2018 | 2017      | %<br>Change |   |
| Class A share commissions                    | \$ 427              | \$ 767    | -44         | % |
| Class C share distribution fees              | 14,600              | 12,979    | 12          | % |
| Closed-end fund dealer compensation payments | 982                 | 958       | 3           | % |
| Intermediary marketing support payments      | 12,534              | 11,221    | 12          | % |
| Discretionary marketing expenses             | 7,097               | 5,192     | 37          | % |
| Total                                        | \$ 35,640           | \$ 31,117 | 15          | % |

Distribution expense increased \$4.5 million, or 15 percent, in the first quarter of fiscal 2018 versus the first quarter of fiscal 2017, primarily attributable to increases in Class C share assets held more than one year on which we pay distribution fees, intermediary marketing support payments to our distribution partners and discretionary marketing expense related to significant corporate initiatives. These increases are partially offset by a decrease in Class A sales on which we pay commissions.

#### *Service fee expense*

Service fee expense increased \$1.6 million, or 6 percent, in the first quarter of fiscal 2018 from the same period a year earlier, reflecting higher average fund assets retained more than one year in funds and share classes that are subject to service fee payments.

#### *Amortization of deferred sales commissions*

Amortization expense increased 11 percent in the first quarter of fiscal 2018 from the same period a year earlier, reflecting higher private fund commission amortization partially offset by lower Class B and Class C share commission amortization. In the first quarter of fiscal 2018, 41 percent of total amortization related to Class C shares and 59 percent to privately offered equity funds. In the first quarter of fiscal 2017, 3 percent of total amortization related to Class B shares, 55 percent to Class C shares and 42 percent to privately offered equity funds.

#### *Fund-related expenses*

Fund-related expenses increased \$4.0 million, or 37 percent, in the first quarter of fiscal 2018 over the same period a year earlier, reflecting increases in fund subsidies and sub-advisory fees paid attributable primarily to the addition of the Calvert funds, and an increase in fund expenses borne by the Company on funds for which it earns an all-in fee.

#### *Other expenses*

The following table shows our other expenses for the three months ended January 31, 2018 and 2017:

| (in thousands)          | Three Months Ended  |           |             |   |
|-------------------------|---------------------|-----------|-------------|---|
|                         | January 31,<br>2018 | 2017      | %<br>Change |   |
| Information technology  | \$ 21,347           | \$ 17,695 | 21          | % |
| Facilities-related      | 10,691              | 9,704     | 10          | % |
| Travel                  | 3,939               | 3,573     | 10          | % |
| Professional services   | 3,217               | 2,932     | 10          | % |
| Communications          | 1,412               | 1,254     | 13          | % |
| Other corporate expense | 6,633               | 6,457     | 3           | % |
| Total                   | \$ 47,239           | \$ 41,615 | 14          | % |

Other expenses increased 14 percent in the first quarter of 2018 from the same period a year earlier, primarily attributable to increases in information technology, facilities-related and travel expenses. The increase in information technology expense is attributable primarily to increase in market data, maintenance, project-related consulting and outside custody and back-office service costs. The increase in facilities-related expenses is primarily attributable to increased depreciation and building-related expenses. The increase in travel expense relates to increased travel activity.

### ***Non-operating Income (Expense)***

The main categories of non-operating income (expense) for the three months ended January 31, 2018 and 2017 are as follows:

| (in thousands)                                     | Three Months Ended  |             |             |   |
|----------------------------------------------------|---------------------|-------------|-------------|---|
|                                                    | January 31,<br>2018 | 2017        | %<br>Change |   |
| Gains and other investment income, net             | \$ 2,598            | \$ 494      | 426         | % |
| Interest expense                                   | (5,907 )            | (7,347 )    | -20         | % |
| Other income (expense) of consolidated CLO entity: |                     |             |             |   |
| Gains and other investment income, net             | 1,717               | -           | NM          |   |
| Interest expense                                   | (94 )               | -           | NM          |   |
| Total non-operating expense                        | \$ (1,686 )         | \$ (6,853 ) | -75         | % |

Gains and other investment income, net, increased by \$2.1 million in the first quarter of fiscal 2018 compared to the same period a year ago, primarily reflecting a \$4.5 million increase in interest and other income partially offset by a \$1.6 million increase in net losses attributable to investments in sponsored products and a \$0.8 million increase in foreign currency losses. The increase in net losses attributable to investments in sponsored products reflects a \$6.5 million loss associated with the Company's determination not to exercise the option to acquire an additional 26 percent ownership interest in Hexavest under the terms of the option agreement entered into when the Company acquired its

Hexavest position in 2012.

The \$1.4 million decrease in interest expense primarily reflects the May 2017 retirement of \$250 million aggregate principal amount of the Company's 6.5 percent senior notes due October 2, 2017 and the April 2017 issuance of \$300 million in aggregate principal amount of 3.5 percent senior notes due April 6, 2027.

The increase in other income (expense) of consolidated CLO entity is a result of income contribution from a consolidated warehouse-stage CLO entity of \$1.6 million, which the Company began consolidating in the fourth quarter of fiscal 2017.

## Income Taxes

Our effective tax rate, calculated as a percentage of income before income taxes and equity in net income of affiliates, was 36.3 percent in the first quarter of fiscal 2018 and 37.3 percent in the first quarter of fiscal 2017.

On December 22, 2017, the Tax Act was signed into law in the U.S. Among other significant changes, the Tax Act reduced the statutory federal income tax rate for U.S. corporate taxpayers from a maximum of 35 percent to 21 percent and required the deemed repatriation of foreign earnings not previously subject to U.S. taxation. Because the lower federal income tax rate took effect two months into our fiscal year, a blended federal tax rate of 23.3 percent applies to the Company for fiscal 2018.

Our income tax provision for the first quarter of fiscal 2018 includes a non-recurring charge of \$24.7 million to reflect the estimated effect of the Tax Act. The non-recurring charge is considered to be a provisional estimate under the U.S. Securities and Exchange Commission Staff Accounting Bulletin 118 (SAB 118) and, based on current interpretation of the tax law changes, includes \$21.7 million from the revaluation of our deferred tax assets and liabilities, and \$3.0 million for the mandatory deemed repatriation of foreign-sourced net earnings not previously subject to U.S. taxation. The increase in our effective tax rate for the first quarter of fiscal 2018 resulting from this charge was offset by an income tax benefit of \$11.9 million related to the exercise of stock options and vesting of restricted stock during the period, and an income tax benefit of \$2.9 million related to the net income attributable to redeemable non-controlling interests and other beneficial interests, which is not taxable to the Company. The following table reconciles the statutory federal income tax rate to our effective tax rate for the first quarter of fiscal 2018:

|                                                                            | Three Months Ended<br>January 31, 2018 |   |
|----------------------------------------------------------------------------|----------------------------------------|---|
| Statutory U.S. federal income tax rate <sup>(1)</sup>                      | 23.3                                   | % |
| State income taxes for current year, net of federal income tax benefits    | 4.3                                    | % |
| Net income attributable to non-controlling and other beneficial interests  | -1.8                                   | % |
| Other items                                                                | 0.9                                    | % |
| Operating effective income tax rate                                        | 26.7                                   | % |
| Non-recurring impact of U.S. tax reform                                    | 18.4                                   | % |
| Net excess tax benefits from stock-based compensation plans <sup>(2)</sup> | -8.8                                   | % |
| Effective income tax rate                                                  | 36.3                                   | % |

*Statutory U.S. federal income tax rate is a blend of 35 percent and 21 percent based on the number of days in our*  
*(1) fiscal year before and after the January 1, 2018 effective date of the reduction in the federal corporate income tax*  
*rate pursuant to the Tax Act.*

*This amount reflects the impact of Accounting Standard Update 2016-09, Improvements to Employee Share-Based*  
*(2) Payment Accounting, which was adopted in the first quarter of fiscal 2018. The Company anticipates that the*  
*adoption of this guidance may cause fluctuations in the Company's effective tax rate, particularly in the first quarter*  
*of each fiscal year, when most of the Company's annual stock-based awards vest.*



We continue to carefully evaluate the impact of the Tax Act, certain provisions of which will not take effect for the Company until fiscal 2019, including, but not limited to, the global intangible low-taxed income, foreign-derived intangible income and base erosion anti-abuse tax provisions.

### ***Equity in Net Income of Affiliates, Net of Tax***

Equity in net income of affiliates, net of tax, primarily reflects our 49 percent equity interest in Hexavest and our seven percent minority equity interest in a private equity partnership managed by a third party.

The following table summarizes the components of equity in net income of affiliates, net of tax, for the three months ended January 31, 2018 and 2017:

| (in thousands)                                       | Three Months Ended<br>January 31, |          | %<br>Change |   |
|------------------------------------------------------|-----------------------------------|----------|-------------|---|
|                                                      | 2018                              | 2017     |             |   |
| Investment in Hexavest, net of tax and amortization  | 2,804                             | 2,397    | 17          | % |
| Investment in private equity partnership, net of tax | 210                               | 109      | 93          | % |
| Total                                                | \$ 3,014                          | \$ 2,506 | 20          | % |

### ***Net Income Attributable to Non-controlling and Other Beneficial Interests***

The following table summarizes the components of net income attributable to non-controlling and other beneficial interests for the three months ended January 31, 2018 and 2017:

| (in thousands)                                                            | Three Months Ended<br>January 31, |             | %<br>Change |   |
|---------------------------------------------------------------------------|-----------------------------------|-------------|-------------|---|
|                                                                           | 2018                              | 2017        |             |   |
| Consolidated sponsored funds                                              | \$ (6,300 )                       | \$ 15       | NM          |   |
| Majority-owned subsidiaries                                               | (4,155 )                          | (3,718 )    | 12          | % |
| Non-controlling interest value adjustments <sup>(1)</sup>                 | -                                 | 73          | -100        | % |
| Net income attributable to non-controlling and other beneficial interests | \$ (10,455 )                      | \$ (3,630 ) | 188         | % |

<sup>(1)</sup>Relates to non-controlling interests redeemable at other than fair value.

Net income attributable to non-controlling and other beneficial interests is not adjusted for taxes due to the underlying tax status of our consolidated majority-owned subsidiaries, which are treated as partnerships or other pass-through entities for tax purposes.

## Changes in Financial Condition, Liquidity and Capital Resources

The following table summarizes certain key financial data relating to our liquidity and capital resources on January 31, 2018 and October 31, 2017 and the use of cash for the three months ended January 31, 2018 and 2017.

## Balance Sheet and Cash Flow Data

| (in thousands)                        | January 31,<br>2018 | October 31,<br>2017 |
|---------------------------------------|---------------------|---------------------|
| Balance sheet data:                   |                     |                     |
| Assets:                               |                     |                     |
| Cash and cash equivalents             | \$533,316           | \$ 610,555          |
| Management fees and other receivables | 213,477             | 200,453             |
| Total liquid assets                   | \$746,793           | \$ 811,008          |
| Investments                           | \$1,029,738         | \$ 898,192          |
| Liabilities:                          |                     |                     |
| Debt                                  | \$619,052           | \$ 618,843          |

| (in thousands)       | Three Months Ended<br>January 31, |             |
|----------------------|-----------------------------------|-------------|
|                      | 2018                              | 2017        |
| Cash flow data:      |                                   |             |
| Operating cash flows | \$(59,997 )                       | \$(33,350 ) |
| Investing cash flows | (46,972 )                         | (50,381 )   |
| Financing cash flows | 26,008                            | (21,380 )   |

***Liquidity and Capital Resources***

Liquid assets consist of cash and cash equivalents and management fees and other receivables. Cash and cash equivalents consist of cash and short-term, highly liquid investments that are readily convertible to cash. Management fees and other receivables primarily represent receivables due from sponsored funds and separately managed accounts for investment advisory and distribution services provided. Liquid assets represented 32 percent and 35 percent of total assets on January 31, 2018 and October 31, 2017, respectively, excluding those assets identified as assets of our consolidated CLO entity. Not included in the liquid asset amounts are \$207.5 million and \$213.5 million of highly liquid short-term debt securities with remaining maturities between three and 12 months held as of January 31, 2018 and October 31, 2017, respectively, which are included within investments on our Consolidated Balance Sheets. Our seed investments in consolidated funds and separate accounts are not treated as liquid assets because they may be longer term in nature.

The \$64.2 million decrease in liquid assets in the first three months of fiscal 2018 primarily reflects cash used for operating activities of \$60.0 million, the payment of \$37.5 million of dividends to shareholders, the repurchase of \$36.3 million of Non-Voting Common Stock, \$24.1 million of net purchases of bank loan investments of our consolidated CLO entity, the purchase of additional non-controlling interests for \$20.8

million, purchases of available-for-sale investments for \$20.3 million and the addition of \$2.6 million in equipment and leasehold improvements offset by proceeds from the issuance of Non-Voting Common Stock of \$44.3 million in connection with the exercise of employee stock options and other employee stock purchases, proceeds from net subscriptions received from non-controlling interests holders of \$51.5 million, net proceeds of \$23.9 million from the our consolidated CLO entity's line of credit issuance, an increase in management fees and other receivables of \$13.0 million, an increase in the effect of currency rate changes on cash and cash equivalents of \$3.7 million and principal repayments on notes receivable from stock options exercises of \$1.0 million.

On January 31, 2018, our debt consisted of \$325 million in aggregate principal amount of 3.625 percent Senior Notes due in June 2023 and \$300 million in aggregate principal amount of 3.5 percent Senior Notes due in April 2027.

We maintain a \$300 million unsecured revolving credit facility with several banks that expires on October 21, 2019. The facility provides that we may borrow at LIBOR-based rates of interest that vary depending on the level of usage of the facility and our credit ratings. The agreement contains financial covenants with respect to leverage and interest coverage and requires us to pay an annual commitment fee on any unused portion. We had no borrowings under our revolving credit facility at January 31, 2018 or at any point during the fiscal quarter. We were in compliance with all debt covenants as of January 31, 2018.

We continue to monitor our liquidity daily. We remain committed to growing our business and returning capital to shareholders. We expect that our main uses of cash will be paying dividends, acquiring shares of our Non-Voting Common Stock, making seed investments in new products and strategic acquisitions, enhancing our technology infrastructure and paying the operating expenses of our business, which are largely variable in nature and fluctuate with revenue and assets under management. We believe that our existing liquid assets, cash flows from operations and borrowing capacity under our existing credit facility are sufficient to meet our current and forecasted operating cash needs. The risk exists, however, that if we need to raise additional capital or refinance existing debt in the future, resources may not be available to us in sufficient amounts or on acceptable terms. Our ability to enter the capital markets in a timely manner depends on a number of factors, including the state of global credit and equity markets, interest rates, credit spreads and our credit ratings. If we are unable to access capital markets to issue new debt, refinance existing debt or sell shares of our Non-Voting Common Stock as needed, or if we are unable to obtain such financing on acceptable terms, our business could be adversely affected.

### ***Recoverability of our Investments***

Our \$1.0 billion of investments as of January 31, 2018 consisted of our 49 percent equity interest in Hexavest, positions in Company-sponsored funds and separate accounts entered into for investment and business development purposes, and certain other investments held directly by the Company. Investments in Company-sponsored funds and separate accounts and investments held directly by the Company are generally in liquid debt or equity securities and

are carried at fair market value. We test our investments, other than trading and equity method investments, for impairment on a quarterly basis. We evaluate our investments in non-consolidated CLO entities and investments classified as available-for-sale for impairment using quantitative factors, including how long the investment has been in a net unrealized loss position, and qualitative factors, including the credit quality of the underlying issuer and our ability and intent to continue holding the investment. If markets deteriorate in the quarters ahead, our assessment of impairment on a quantitative basis may lead us to impair additional investments in future quarters that were in an unrealized loss position at January 31, 2018.

We test our investments in equity method investees, goodwill and indefinite-lived intangible assets for impairment in the fourth quarter of each fiscal year, or as facts and circumstances indicate that additional analysis is warranted. There have been no significant changes in financial condition in the first three months of fiscal 2018 that would indicate that an impairment loss exists at January 31, 2018.

We periodically review our deferred sales commissions and amortizing identifiable intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. There have been no significant changes in financial condition in the first three months of fiscal 2018 that would indicate that an impairment loss exists at January 31, 2018.

### ***Operating Cash Flows***

Cash used for operating activities totaled \$60.0 million in the first three months of fiscal 2018, compared to \$33.4 million of cash used for operating activities in the first three months of fiscal 2017. The increase in net cash used for operating activities year-over-year primarily reflects an increase in net cash used to settle accrued compensation, a decrease in net cash used to purchase trading securities and decreases as a result of timing differences in the cash settlements of our other assets and liabilities.

### ***Investing Cash Flows***

Cash used for investing activities totaled \$47.0 million in the first three months of fiscal 2018 compared to cash used for investing activities of \$50.4 million in the first three months of fiscal 2017. The decrease in cash used for investing activities year-over-year is attributable primarily to a decrease in cash paid in acquisition of \$52.0 million offset by a net increase in the purchase of investments of \$24.4 million, which is primarily attributable to an investment in a non-consolidated CLO entity, and the net purchase of \$24.1 million of bank loan investments by our consolidated CLO entity.

### ***Financing Cash Flows***

Cash provided by financing activities totaled \$26.0 million in the first three months of fiscal 2018 compared to cash used for financing activities of \$21.4 million in the first three months of fiscal 2017. The increase in cash provided by financing activities is attributable primarily to proceeds received from the issuance of 2.7 million shares of our Non-Voting Common Stock for \$44.3 million and a year-over-year decrease in share repurchases, which totaled \$36.3

million in the first quarter of fiscal 2018. As of January 31, 2018, we have authorization to purchase an additional 5.4 million shares under our current share repurchase authorization and anticipate that future repurchases will continue to be an ongoing use of cash. In the first quarter of fiscal 2018, we paid \$20.8 million to acquire additional interests in Atlanta Capital and Parametric. Our dividends declared per share were \$0.31 in the first quarter of fiscal 2018 compared to \$0.28 per share in the first quarter of fiscal 2017. We currently expect to declare and pay quarterly dividends on our Voting and Non-Voting Common Stock comparable to the dividend declared in the first quarter of fiscal 2018.

### **Contractual Obligations**

We have future obligations under various contracts relating to debt, interest payments and operating leases. During the first three months of fiscal 2018, there were no material changes to our contractual obligations as previously reported in our Annual Report on Form 10-K for the year ended October 31, 2017, except as discussed below.



Non-controlling interests held by employees in Atlanta Capital and Parametric long-term equity incentive plans are not subject to mandatory redemption. The purchase of non-controlling interests is predicated on the exercise of a series of puts held by non-controlling interest holders and calls held by us. The puts provide the non-controlling interest holders the right to require us to purchase these retained interests at specific intervals over time, while the calls provide us with the right to require the non-controlling interest holders to sell their retained equity interests to us at specified intervals over time, as well as upon the occurrence of certain events such as death or permanent disability. These non-controlling interests are redeemable at fair value. There is significant uncertainty as to the timing and amount of any non-controlling interest purchase in the future. Although the timing and amounts of these purchases cannot be predicted with certainty, we anticipate that the purchase of non-controlling interests in our consolidated subsidiaries may be a significant use of cash in future years.

We have presented all redeemable non-controlling interests at redemption value on our Consolidated Balance Sheet as of January 31, 2018. We have recorded the current quarter change in the estimated redemption value of non-controlling interests redeemable at fair value as a component of additional paid-in capital. Based on our calculations, the estimated redemption value of our non-controlling interests totaled \$304.4 million on January 31, 2018 compared to \$250.8 million on October 31, 2017. These interests are all redeemable at fair value. No puts or calls redeemable at other than fair value were outstanding as of January 31, 2018.

Redeemable non-controlling interests as of January 31, 2018 consisted of third-party investors' ownership in consolidated investment funds of \$215.5 million, non-controlling interests in Parametric issued in conjunction with the Parametric Risk Advisors LLC (Parametric Risk Advisors) final put option of \$14.7 million and profit interests granted under the long-term incentive plans of Parametric and Atlanta Capital of \$46.5 million and \$27.7 million, respectively, all of which are redeemable at fair value.

## **Foreign Subsidiaries**

We consider the undistributed earnings of certain of our foreign subsidiaries to be indefinitely reinvested in foreign operations as of January 31, 2018; however, as a result of the Tax Act, an estimated tax of \$3.0 million was recognized during the first quarter of fiscal 2018 on these earnings. The calculation of this non-recurring charge was based on the Tax Act, guidance issued by the Internal Revenue Service, and our interpretations of this information. We anticipate additional guidance to be issued by the Internal Revenue Service and continue to monitor interpretative developments and, as a result, this estimated tax charge may change. In light of the changes contained in the Tax Act and as additional guidance becomes available, we may reconsider our repatriation policy.

## **Off-Balance Sheet Arrangements**

We do not invest in any off-balance sheet vehicles that provide financing, liquidity, market or credit risk support or engage in any leasing activities that expose us to any liability that is not reflected in our Consolidated Financial Statements.

#### Critical Accounting Policies

As of November 1, 2017, the Company has amended its significant accounting policy for stock-based compensation to reflected the adoption of Accounting Standard Update 2016-09, *Improvements to Employee Share-Based Payment Accounting*. For further details regarding the amended policy, please see Note 1,

“Summary of Significant Accounting Policies” in Item 1, “Consolidated Financial Statements.” There have been no other updates to our critical accounting policies from those disclosed in Management’s Discussion and Analysis of Financial Condition in our Form 10-K for the fiscal year ended October 31, 2017.

### **Accounting Developments**

There have been no material changes in our accounting developments from those previously disclosed in our Annual Report on Form 10-K for the year ended October 31, 2017.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in our Quantitative and Qualitative Disclosures About Market Risk from those previously reported in our Form 10-K for the year ended October 31, 2017.

### **Item 4. Controls and Procedures**

We evaluated the effectiveness of our disclosure controls and procedures as of January 31, 2018. Disclosure controls and procedures are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), to allow timely decisions regarding required disclosure. Our CEO and CFO participated in this evaluation and concluded that, as of January 31, 2018, our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting that occurred during the first quarter of our fiscal year ended October 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II - Other Information****Item 1. Legal Proceedings**

There have been no material developments in litigation previously reported in our SEC filings.

**Item 1A. Risk Factors**

There have been no material changes to our Risk Factors from those previously reported in our Form 10-K for the year ended October 31, 2017.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The table below sets forth information regarding purchases by the Company of our Non-Voting Common Stock on a monthly basis during the first quarter of fiscal 2018:

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

| Period                                     | (a)<br>Total<br>Number of<br>Shares<br>Purchased | (b)<br>Average<br>Price Paid<br>Per Share | (c)                                                                                                         | (d)                                                                                        |
|--------------------------------------------|--------------------------------------------------|-------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
|                                            |                                                  |                                           | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs <sup>(1)</sup> | Maximum Number<br>of Shares That May<br>Yet Be Purchased<br>Under the Plans<br>or Programs |
| November 1, 2017 through November 30, 2017 | 400,521                                          | \$ 50.83                                  | 400,521                                                                                                     | 5,652,437                                                                                  |
| December 1, 2017 through December 31, 2017 | 43,900                                           | \$ 56.73                                  | 43,900                                                                                                      | 5,608,537                                                                                  |

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|                                          |         |          |         |           |
|------------------------------------------|---------|----------|---------|-----------|
| January 1, 2018 through January 31, 2018 | 227,289 | \$ 59.37 | 227,289 | 5,381,248 |
| Total                                    | 671,710 | \$ 54.10 | 671,710 | 5,381,248 |

*We announced a share repurchase program on January 11, 2017, which authorized the repurchase of up to (1)8,000,000 shares of our Non-Voting Common Stock in the open market and in private transactions in accordance with applicable securities laws. This repurchase plan is not subject to an expiration date.*

**Item 6. Exhibits**

(a)

**Exhibits**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>31.1</u>        | <u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                                                                                                                                                                                                                                                       |
| <u>31.2</u>        | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                                                                                                                                                                                                                                                       |
| <u>32.1</u>        | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                                                                                                                                                                                                        |
| <u>32.2</u>        | <u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                                                                                                                                                                                                        |
| 101                | Materials from the Eaton Vance Corp. Quarterly Report on Form 10-Q for the quarter ended January 31, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Notes to the Consolidated Financial Statements, tagged in detail (furnished herewith). |

**Signatures**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EATON VANCE CORP.

(Registrant)

DATE: March 9, 2018 /s/Laurie G. Hylton  
(Signature)  
Laurie G. Hylton  
Chief Financial Officer

DATE: March 9, 2018 /s/Julie E. Rozen  
(Signature)  
Julie E. Rozen  
Chief Accounting Officer