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VIA E-MAIL

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street
Washington, DC 20549-1090
rule-comments@sec.gov

Re: Swing Pricing (File Nos. S7-16-15 and S7-08-15 (Release))[1]

Dear Mr. Fields:

On behalf of Eaton Vance Corp. and its affiliates (collectively, Eaton Vance),[2] I write to comment on the proposal set forth in the Release to adopt new rule 22c-1(a)(3) and conforming amendments to other rules under the Investment Company Act of 1940, as amended, to permit certain types of open-end funds to adopt "swing pricing" (Swing Pricing Proposal).

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1 Unless otherwise noted, capitalized terms used in this letter have the same meaning as in the Release.

2 Eaton Vance is one of the oldest investment management firms in the United States, with a history dating back to 1924. Eaton Vance and its affiliates managed $318.7 billion in assets as of April 30, 2016, offering individuals and institutions a broad array of investment strategies and wealth management solutions. Eaton Vance provides investment advisory and administrative services to U.S. registered investment companies through its subsidiaries Eaton Vance Management and Boston Management and Research. Our affiliate NextShares Solutions LLC owns the intellectual property underlying NextShares™ exchange-traded managed funds (NextShares) and is seeking to commercialize NextShares through licensing and services agreements with fund sponsors. The initial NextShares funds were launched by Eaton Vance in the first quarter of 2016.

This letter reiterates and amplifies the views expressed in the comment letter submitted by my colleague Payson Swaffield on January 13, 2016 (Swaffield Letter). In the intervening months, Eaton Vance has strengthened its conviction that:

- the Swing Pricing Proposal is deeply, fundamentally and irreparably flawed;
- the objectives of the Swing Pricing Proposal could be accomplished in a fairer, more efficient and less costly manner using currently available remedies;
- the massive retooling of the fund transaction processing systems and protocols that would be required to implement swing pricing across the fund industry is unwarranted and unnecessary; and
- the Swing Pricing Proposal should be withdrawn.

Presented below is our analysis supporting these conclusions and recommendations. Attached as an exhibit to this letter is a slide presentation summarizing our views and analysis.

Summary of the Proposal

As described in the Release, the Swing Pricing Proposal would permit, but not require, open-end funds that are not money market funds or ETFs to adopt policies and procedures providing for all purchases and redemptions of fund shares to be effected at prices that vary from the fund's current net asset value per share (NAV) by a prescribed "swing factor" whenever the fund's daily net purchases or daily net redemptions exceed a specified percentage of the fund's net assets defined as the "swing threshold." For a fund adopting swing pricing, on days when purchases of fund shares exceed redemptions by at least the swing threshold, all the fund's purchases and redemptions would be priced at NAV plus the applicable swing factor. When the fund's daily redemptions exceed purchases of shares by at least the swing threshold, all purchases and redemptions would be priced at NAV less the applicable swing factor.

Before implementing swing pricing, a fund would be required to establish policies and procedures governing the use of swing pricing and such policies and procedures must be approved by the fund's board of directors, including the independent directors. In determining whether the amount of a fund's daily net purchases or daily net redemptions have exceeded the fund's swing threshold, the fund's swing pricing administrator may rely on information obtained after "reasonable inquiry."[3] While a fund's swing threshold and swing factor must be based on the considerations set forth in proposed rule 22c-1(a)(3), permitted swing pricing adjustments would not be subject to any limits. Funds utilizing swing pricing would not be required to disclose the swing threshold and swing factor currently in effect. In reporting daily share values and fund performance, the price at which a fund's shares are issued and redeemed would be treated as NAV, and the fund's actual, unadjusted NAV and the impact of swing pricing on stated fund returns would not be disclosed.

3 Release at page 398.

The Commission's Rationale

The Swing Pricing Proposal reflects the Commission's recognition that open-end funds incur trading and other costs in connection with shareholder inflows and outflows, which costs reduce fund returns and dilute the interests of continuing fund shareholders. By permitting the use of swing pricing, the Commission seeks to provide funds with "an effective tool to prevent fund dilution and promote fairness among all its shareholders."[4] The Commission asserts that swing pricing also "could act as a deterrent against redemptions motivated by any first-mover advantage."[5]

The Commission observes that open-end funds are currently permitted to use redemption fees (limited to 2 percent) and purchase fees to mitigate dilution arising from shareholder transaction activity, and opines that such fees are not widely used because implementation "requires coordination with the fund's service providers, which could entail operation complexity."[6] The Commission asserts that "swing pricing would be simpler to implement than a [redemption or purchase] fee because the NAV adjustment would occur pursuant to the fund's own procedures and would be factored into the process by which a fund strikes its NAV."[7]

The Commission notes that swing pricing is permitted in Luxembourg and other European fund jurisdictions, and cites evidence that use of swing pricing is growing more widespread among funds domiciled there, including funds managed by advisers also operating in the U.S.

Eaton Vance's Assessment

Eaton Vance shares the Commission's understanding that costs associated with shareholder inflows and outflows can meaningfully reduce fund returns and dilute the interests of long-term shareholders. As described in the Swaffield Letter, in 2014 Eaton Vance conducted what we believe is the most comprehensive study performed to date of the flow-related costs of actively managed mutual funds. The study found that fund trading costs to accommodate shareholder inflows and outflows reduced the annual returns of actively managed U.S., international and global equity mutual funds by an average of 26 basis points on an equal-weighted basis and 20 basis points asset-weighted over the 2007 to 2013 period.[8]

While acknowledging the potential significance of flow-related fund costs, we strongly disagree with the view that the Swing Pricing Proposal is an improvement over other available remedies or consistent with the Commission's investor protection mandate. As noted in numerous comment letters addressing the Swing Pricing Proposal, effective implementation of swing

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[4] Release at page 190.

[5] Release at page 334.

[6] Release at pages 190 and 346.

[7] Release at page 346.

[8] See Swaffield Letter at pages 8 and 9 and "Avoidable Structural Costs of Actively Managed Mutual Funds, NextShares Solutions LLC, November 2014, available at www.NextShares.com/whitepaper.

pricing for broadly held funds in the U.S. would require a massive reworking and reordering of the protocols employed each business day by the many service providers involved in calculating fund NAVs and processing fund shareholder transactions. Beyond the implementation challenges, the Swing Pricing Proposal raises serious investor protection concerns, most notably by subjecting buyers and sellers of fund shares to hidden transaction costs and distorting the comparative performance records of different funds to reward those that apply swing pricing most aggressively. The difficult-to-quantify and variable nature of the underlying fund costs that the Swing Pricing Proposal seeks to mitigate and the forced reliance on estimates of daily net flows mean that fund transaction prices adjusted to reflect swing pricing will be subject to errors and second-guessing, exposing funds utilizing swing pricing to transaction reprocessing costs and potential regulatory sanctions and litigation. The lack of transparency and absence of necessary controls in the Swing Pricing Proposal also create opportunities for fraud and abuse.

Impediments to Implementation.

Underlying the Swing Pricing Proposal is the Commission's apparent understanding that (a) use of fund redemption fees and purchase fees (collectively, transaction fees) to offset flow-related fund costs is constrained primarily by "operational complexity"[9] arising from required coordination with fund service providers and (b) swing pricing would be simpler to implement than fund transactions fees because swing pricing would not require coordination with fund service providers.

We believe both of these understandings are incorrect. In our experience, the primary deterrent to the widespread adoption of fund transaction fees is not that they are operationally difficult to implement,[10] but rather that they are unpopular with fund investors and financial advisors. A fund's transaction fees are required to be disclosed in the expense tables in its summary and statutory prospectuses. Even investors who understand that transaction fees accrue to the benefit of the fund (and thus, indirectly, to fund shareholders) often react negatively when confronted with having to pay them. Given a choice, most investors appear to prefer funds that do not charge transactions fees over funds that do. This creates a competitive disadvantage for funds that impose transaction fees, accounting for their limited use.

The Commission's apparent belief that swing pricing could be implemented without significant involvement of fund service providers and distribution intermediaries is underscored by the cost-benefit analysis performed by the Commission staff as summarized in the Release. The Commission staff identifies as the principal costs of the Swing Pricing Proposal the one-time costs incurred by funds to develop and implement related policies and procedures, as well as ongoing annual fund costs to administer such policies and procedures,[11] which are estimated at

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[9] Release at pages 190 and 346.

[10] Our understanding is that substantially all fund transaction processors and distribution intermediaries have systems and procedures in place to accommodate fund transaction fees and have used them successfully for a number of years.

[11] Release at pages 336-337.

approximately $296 million[12] and approximately $34 million,[13] respectively. *Nowhere in the swing pricing cost-benefit analysis does the Commission staff seek to quantify, or even mention, the required costs to retool the systems and workflows developed over decades to process fund shareholder transactions.*

As noted above, numerous comment letters submitted to the Commission addressing the Swing Pricing Proposal observe that swing pricing cannot be implemented in the U.S. for broadly held funds without a major reworking of the systems and protocols used to process fund shareholder transactions. To institute swing pricing, a fund must have an accurate estimate of its daily net flows prior to the time the fund's transaction price is determined each business day. Established workflows provide for the broker-dealers, bank trust departments, retirement recordkeepers and other intermediaries that process the vast majority of mutual fund purchases and redemptions to use the current transaction price as an input in their daily processing. Among other considerations, intermediaries require receipt of the current transaction price to translate the value of customer orders expressed in share amounts or as percentages of holdings into dollar amounts. So long as fund transaction processors and distribution intermediaries require a fund's price as an input into their processes for determining the value of daily net fund flows, the swing pricing requirement that a reliable estimate of daily net flows is available at the time the daily transaction price is established cannot be fulfilled. Reconciling these conflicting requirements is a substantial impediment to instituting swing pricing for broadly held funds in the U.S.

Again as described in numerous comment letters addressing the Swing Pricing Proposal, there are notable differences in the operating and distribution models of European-domiciled funds versus their U.S. counterparts that enable swing pricing to function in Europe, while precluding its broad use here. Among other distinctions, European funds typically have a much longer window between the market close and when fund transaction prices are required to be disseminated (typically the following morning) and appear to have a lower prevalence of share-based and percentage-based transactions, reducing the need for prior communications of fund transaction prices to size customer orders.

<u>Investor Protection Deficiencies</u>.

Paramount among our objections to the Swing Pricing Proposal are the gross deficiencies in investor protection embedded in the proposal. When a fund's swing factor and swing threshold are not disclosed, buyers and sellers of fund shares are subject to paying hidden transaction costs equal to the swing factor whenever they transact in the same direction as the fund's prevailing daily net flows (*i.e.*, buy on days when inflows exceed outflows or redeem when outflows exceed inflows) and the amount of daily net flows exceeds the swing threshold. Buyers and sellers of shares would not be told, and could not determine, either before or after

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[12] Release at page 341-342.

[13] Release at page 342.

their transaction, the amount of transaction costs they pay. Avoiding hidden transaction costs by timing purchases and sales of fund shares would be virtually impossible for most shareholders. Because the term "NAV" would be used to describe a fund's transaction price, many investors would assume, quite logically, that all share transactions take place at the fund's actual, unadjusted NAV and no fund transaction costs apply.[14] In sum, the Swing Pricing Proposal sanctions *total non-transparency* of the potentially significant transaction costs that many fund investors will pay. We view this as an egregious departure from basic principles of investor protection.

As a second major investor protection concern, the proposed calculation of fund returns based on fund transaction prices adjusted from NAV to reflect swing pricing and with minimal disclosure of swing pricing's performance effects will provide investors with information about comparative fund returns that may be highly misleading. Two funds with identical holdings, the same expenses and the same shareholder flows may report quite different returns if one fund applies swing pricing more aggressively than the other. Comparative returns could be further skewed by swing pricing effects on fund prices at the beginning and end of performance measurement periods.

As proposed, the only disclosure that a fund would be required to make regarding the contribution of swing pricing to reported returns is to include the "per share impact of amounts retained by the [f]und pursuant to its swing pricing policies and procedures" under "Capital Adjustments Due to Swing Pricing" in the Financial Highlights section of the fund's statutory prospectus[15] and semiannual and annual reports to shareholders. The many fund investors who do not review these disclosures, or do not understand them, will be drawn to the false conclusion that funds that aggressively use swing pricing provide higher shareholder returns than otherwise identical funds that do not.

In reality, the aggregate returns of fund shareholders, before expenses, are exactly the same whether or not a fund uses swing pricing. It's a zero sum game: the observed improvement in fund returns that comes with swing pricing is sourced from, and equally offset by, the net transaction costs paid by buyers and sellers of fund shares each day that swing pricing is in effect. After expenses, swing pricing actually *reduces* aggregate shareholder returns by the amount of fund expenses incurred to implement the fund's swing pricing program[16] and the

[14] On pages 197 and 334 of the Release, the Commission acknowledges that, when a fund's swing factor and swing threshold are not disclosed, "the *precise* impact of swing pricing on particular purchase or redemption requests would not be known *in advance* and thus *may not be fully transparent* to investors [emphasis added]." The reality is far worse: buyers and sellers would never know, or be able to reasonably estimate, even the *approximate* impact of swing pricing on their transaction prices. In truth, *the costs of swing pricing would be completely invisible to those who pay them.*

[15] See proposed changes to Form N-1A at page 410 of the Release.

[16] See pages 335-342 of the Release for the Commission staff's estimates of the fund costs that may be incurred if swing pricing is implemented.

incremental management fees and other asset-based fund fees paid in connection with fund net asset accretion.[17]

A third investor protection concern with the Swing Pricing Proposal arises from the fact that proposed rule 22c-1(a)(3) imposes no explicit duty on fund sponsors or fund boards to limit swing pricing adjustments from actual, unadjusted NAV to amounts that are reasonably related to the fund costs associated with the shareholder capital transactions giving rise to the swing adjustment. While the proposed rule specifies the factors that must be considered in establishing a fund's swing threshold and swing factor, it provides little guidance to fund sponsors and fund boards on how to balance the conflicting interests of continuing shareholders (benefiting from low swing thresholds and high swing factors) versus transacting shareholders (benefiting from high swing thresholds and low swing factors) in setting appropriate swing thresholds and applying reasonable swing factor adjustments each day that the swing threshold is exceeded.

The Swing Pricing Proposal does not appear to recognize that fund sponsors will have an economic incentive to apply swing pricing aggressively, because doing so improves the competitiveness of the funds they manage by increasing reported returns.[18] The fact that the Swing Pricing Proposal sanctions hiding from transacting shareholders the costs they pay (which account for the higher reported fund performance) only adds to the appeal. If the Swing Pricing Proposal is adopted as proposed, we suspect the role of fund directors will be skewed toward seeking to prevent overly aggressive applications of swing pricing, rather than guarding against underuse. As a matter of investor protection, funds should be obligated to limit swing

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[17] Some commentary supporting swing pricing referenced in the Release suggests that use of swing pricing increases a fund's aggregate shareholder returns. See statement of the Association of the Luxembourg Fund Industry (ALFI) on page 195 of the Release that "[s]wing pricing helps preserve investment returns as the value to long-term investors normally exceeds the value of the swing factor applied on entry to or exit from the fund." Contrary to what this statement implies, the benefits of swing pricing to a fund's long-term shareholders cannot exceed the net costs paid by buyers and sellers of fund shares. Swing pricing is not, and cannot be, a source of shareholder alpha.

[18] Throughout the Release, the Commission references increased fund performance volatility as a deterrent to use of swing pricing. The Release suggests that increased volatility may cause fund sponsors to avoid adopting swing pricing even when doing so is in the best interests of fund shareholders. As stated on page 232, "a fund's adviser could be reluctant to implement swing pricing to the extent it may make the fund's performance stray too far from, or appear more volatile than, the fund's benchmark, which could impact the ability of the fund to attract new investments. Approval of swing pricing policies and procedures by a majority of a fund's independent directors could make certain that the fund would use swing pricing in circumstances in which the board has determined swing pricing would serve shareholders' best interests, even if these interests may conflict with the adviser's." We believe this statement reflects a misreading of fund sponsors' incentives with respect to swing pricing. Far more important to the commercial interests of any fund sponsor than a transient increases in fund performance volatility is the favorable impact of using swing pricing on observed fund returns, which is permanent and can be significant. Inarguably, funds compete far more on the basis of reported returns than short-term volatility.

pricing adjustments to amounts reasonably related to the fund costs arising from the associated shareholder capital transactions.[19]

Imprecision and Reliance on Estimates.

Not acknowledged in the Release is that many of the factors that a fund will be required to consider[20] in establishing its swing threshold and daily swing factor are inherently difficult to quantify, imprecise and highly variable in their incidence and effect on the fund, including:

- the size, frequency and volatility of the fund's historical shareholder flows during normal and stressed periods;
- the fund's holdings of cash instruments and available borrowings and other funding sources;
- the fund's investment strategy and liquidity of the fund's investments;
- the costs normally associated with transactions in the markets in which the fund invests;
- the near-term costs expected to be incurred by the fund as a result of the fund's current daily net shareholder flows, including market impact costs, bid-ask spread costs, transaction fees and charges, and any borrowing-related costs; and
- the value of assets purchased or sold by the fund as a result of the fund's current daily net shareholder flows.

Depending on the interactions among a fund's current cash levels, expected and actual future flows, asset liquidity, investment strategy and tactical positioning, its daily net flows can have widely different net costs or benefits to the fund. The same daily net flows that impose meaningful fund costs on one day can result in equal or greater benefits to the fund the next day. Moreover, as described above, even knowing with reasonable accuracy the amount of a fund's daily net flows by the time its transaction price is required to be determined will be a severe challenge, if not impossible, for broadly held funds. Accordingly, swing pricing will be, at best, a blunt instrument for offsetting fund costs in connection with shareholder flows.

Many fund sponsors will undoubtedly exercise appropriate care in seeking to assure that swing pricing is implemented in a reasonable manner. Even so, fund shareholders will frequently bear swing pricing transaction costs that have little or no relation to the actual impact of their

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19 ETF exemptive applications typically include representations to the effect that fund transaction fees will be limited to amounts determined by the investment adviser to be appropriate to defray the expenses that the fund incurs when an investor purchases or redeems fund shares. No similar conditions are included in proposed rule 22c-1(a)(3).

20 See proposed rule 22c-1(a)(3)(i) at pages 398-399 of Release.

transaction on the fund and its continuing shareholders. From time to time, information will invariably arise after a fund's daily transaction price is determined that demonstrates that the swing pricing adjustments applied were based on invalid inputs and/or false assumptions.

The imprecision and forced reliance on estimates in determining swing pricing adjustments means that the transaction prices of funds utilizing swing pricing will frequently be subject to errors and second-guessing. Not only does this raise fairness issues for fund shareholders, it also exposes funds utilizing swing pricing to reprocessing costs (if clearly erroneous transaction prices are later found to have been used) and potential regulatory sanctions and litigation risks (if the judgments of a fund's adviser and/or board of directors are challenged by regulators or litigants). For good and valid reasons, numerous comment letters addressing the Swing Pricing Proposal have requested that, if swing pricing is adopted, the adopting release includes safe harbors or other protections to shield funds, advisers and boards from legal and regulatory risks arising from reasonable reliance on fund information that later proves invalid. In considering these requests, the Commission must strike a careful balance between providing adequate protections to funds, advisers and boards, while at the same time ensuring that a fund's swing pricing policies appropriately consider the divergent interests of continuing and transacting fund shareholders. As noted above, assuming adequate fund, adviser and board protections are in place, we believe the incentives are for funds to apply swing pricing aggressively (low swing thresholds and high swing factors) due to the favorable impact on reported fund performance and lack of transparency of fund transaction costs to those who pay them.

<u>Limited Deterrence Effect</u>.

One of the purported benefits of swing pricing as described in the Release is to deter shareholder redemptions motivated by perceived first-mover advantages, thereby adding to overall financial stability. As explained in the Release, "if remaining shareholders understood that redeeming shareholders would bear the estimated costs of their redemption activity, it would reduce their incentive to redeem quickly because there would be less risk that they would bear the costs of other shareholders' redemption activity."[21]

We disagree with the assertion that swing pricing as proposed will discourage redemptions or contribute to financial stability. When a fund's swing factor and swing threshold are not disclosed, any potential deterrence effect is substantially eliminated. Because fund shareholders will have no way to determine either *when* swing pricing applies (non-disclosure of swing threshold and difficulty predicting daily fund net flows) or *by how much* swing pricing lowers redemption prices (non-disclosure of swing factor), swing pricing cannot meaningfully influence shareholder behavior. In our judgment, it is wishful thinking to attribute any value to the proposed application of swing pricing as a deterrent to untimely fund redemptions or as a promoter of financial stability.

[21] Release at page 196.

Benefits Leakage.

One of the unfortunate aspects of swing pricing is that the subject fund and its continuing shareholders do not capture all the benefits of the transaction costs imposed on shareholders who trade in the prevailing daily flow direction. A significant fraction of the transaction costs paid may accrue to the benefit of fund shareholders who transact in the opposite direction on the same day, rather than to the fund itself. We call this *benefits leakage*.

The amount of a fund's swing pricing benefits leakage is a function of the relationship between inflows and outflows on days when the fund's swing threshold is exceeded:

If Max = Greater of daily inflows and daily outflows, as % of fund net assets

Min = Lesser of daily inflows and daily outflows, as % of fund net assets

BL = Benefits leakage rate

Then BL = Min / Max

The closer the balance between daily inflows and daily outflows, the higher the percentage of swing pricing benefits that accrue to shareholders who transact against the prevailing daily flow direction and the lower the percentage of such benefits that are captured by the fund. When Max and Min are very close, nearly all benefits accrue to other transacting shareholders; when Max greatly exceeds Min, nearly all benefits accrue to the fund.

To estimate the amount of benefits leakage that would accompany adoption of swing pricing, we evaluated the daily gross and net flows of Eaton Vance-sponsored mutual funds[22] over the period since the beginning of 2007. For each of 84 currently offered Eaton Vance funds over an aggregate of 152,082 fund days, the incidence of daily net flows exceeding the below-indicated threshold percentages of fund net assets and the distribution of swing pricing benefits leakage rates on such days were as follows:

22 To avoid skewing the reported results by smaller funds, we excluded from the analysis all funds with less than $50 million of net assets.

Swing Threshold (bps)	# of Fund Days Exceeding Swing Threshold	% of Fund Days Exceeding Swing Threshold	Benefits Leakage Distribution: 95% Value	Benefits Leakage Distribution: 75% Value	Benefits Leakage Distribution: 50% Value	Benefits Leakage Distribution: 25% Value	Benefits Leakage Distribution: 5% Value
0	152,082	100%	0.0%	10.7%	32.7%	61.0%	91.1%
25	23,342	15%	0.0%	3.1%	9.6%	19.0%	37.8%
50	10,376	7%	0.0%	2.0%	5.9%	12.3%	29.1%
75	6,218	4%	0.0%	1.5%	4.3%	9.7%	25.2%
100	4,198	3%	0.0%	1.1%	3.4%	7.7%	23.5%

The above chart should be read to show, for example, that a swing threshold of 25 basis points was exceeded on approximately 15% of fund days included in the study and that, if swing pricing applied at a swing threshold of 25 basis points, the benefits leakage rate was 3.1% or greater 75% of the time, 9.6% or greater 50% of the time, 19.0% or greater 25% of the time, and 37.8% or greater 5% of the time.

From the above, we observe that a meaningful percentage of the asserted benefits of swing pricing are diverted to other transacting shareholders (those trading against the prevailing daily flow direction) and not captured by the intended beneficiaries, the fund and its continuing shareholders. As explained above, the proposed lack of transparency regarding the likely incidence and effect of swing pricing on transacting shareholders means that swing pricing will have little or no ability to favorably influence shareholder behavior (*i.e.*, encouraging greater purchases on net outflow days or more redemptions on net inflow days). As a result, funds adopting swing pricing will not only receive no direct benefit, but also little or no indirect benefit, from the portion of transaction costs paid that accrue to shareholders who trade against the prevailing daily flow direction.

By contrast, fund transaction fees (*i.e.*, redemption fees and purchase fees) work entirely differently. With transaction fees, *all* the benefits of the costs borne by transacting shareholders accrue to the fund itself, rather than being diverted to other transacting shareholders. To our thinking, this makes transaction fees a fundamentally *fairer and more efficient* alternative to swing pricing as a means for addressing flow-related fund costs.

<u>Potential for Fraud and Abuse</u>.

Not addressed in the Release are the opportunities for fraudulent and abusive behavior that arise from the Swing Pricing Proposal's lack of transparency and inadequate safeguards. One such opportunity could be for a fund sponsor to use swing pricing to augment the stated performance of funds in a seed capital stage of development. To illustrate, assume that Fund A is started with $25,000 of initial seed capital contributed by its adviser. Fund A establishes a swing threshold of 25 basis points and determines a swing factor of 50 basis points, consistent with its swing pricing policies and procedures as approved by the Fund's board of directors and the requirements of proposed rule 22c-1(a)(3). To help build a favorable track record and make Fund A more appealing to prospective investors, the adviser initiates a program to buy and redeem Fund shares on a systematic basis, transacting an average of 5 percent of fund net assets each day. At the end of the Fund's first year, investors observe that the Fund has outperformed its benchmark by over 600 basis points.[23] Only a close reading of the financial statements reveals that the source of the Fund's strong returns is application of its swing pricing policies, not investment skill.

Swing pricing gives unscrupulous fund managers the ability to create fictitious fund "alpha" by imposing swing pricing adjustments that exceed the associated fund costs. In fact, using swing pricing, a manager could "dial in" a targeted level of apparent fund alpha by combining a given daily average share turnover rate with a given level of excess swing factor pricing adjustments.

A second potential area for abuse arises from the proposed use of adjusted NAVs in determining fund performance, including in the calculation of performance-based advisory fees. As noted previously, the fund performance benefits of swing pricing will incentivize advisers to adopt aggressive swing pricing policies (low swing threshold, high swing factor), potentially imposing costs on transacting fund shareholders that far exceed the associated costs of their activity to the fund. Using adjusted NAVs to measure performance may also tempt advisers to seek to influence end-of-period capital activity (or the swing factor applied at period ends) to alter calculated fund performance. As an example, assume that Fund B operates with a swing threshold of 20 basis points and a swing factor of 50 basis points, consistent with the Fund's swing pricing policies and procedures as approved by its board of directors and the requirements of proposed rule 22c-1(a)(3). Assume further that Fund B enters the last day of its performance year trailing its benchmark by 30 basis points. On the last day of the year, Fund B's adviser decides to buy shares of the Fund with its own capital equal to one-half percent of the Fund's net assets. The adviser's investment causes the Fund's swing threshold to be exceeded and its reported NAV to be adjusted upward by the swing factor. As a result, Fund B finishes the year ahead of its benchmark. Over the first few days of the next year, Fund B's adviser withdraws its investment gradually to avoid triggering the swing threshold.

A different opportunity for abusive behavior that may be promoted by the Swing Pricing Proposal could arise at the shareholder level, akin to behaviors observed during the fund industry scandals of the early 2000s. A close tracking of daily fund performance and reported daily flow patterns[24] over time may enable a potential market timer to identify with reasonable

[23] The observed benefit to annual fund performance from swing pricing (SPOPB) can be approximated as the product of: (a) the number of days during the period when the swing threshold is exceeded (N); (b) the average swing factor in effect on days the swing threshold is exceeded (ASF); (c) the average velocity of net fund flows (daily net flows as % of fund net assets) on days the swing factor is exceeded (AVF); and (d) one minus the average benefits leakage rate for the period (1 – BL). For Fund A, we assume N = 250, ASF = 50 bps, AVF = 5% and BL = 0, and calculate SPOPB ≈ 625 bps (= 250 x 50 bps x 5% x 100%).

[24] We understand that the daily net flows of a significant percentage of mutual funds are available on a next-day basis through commercial data services.

certainty days in which a particular fund is likely to incur a large upward or downward swing pricing adjustment. Because purchase and redemption prices of all shareholders would be subject to the same adjustment, a market timer could potentially capture short-term profits by buying fund shares on days when fund transaction prices are subject to large downward adjustments and redeeming fund shares on upward adjustment days.[25] Because, by design, a fund's swing factor would reflect associated fund costs to be incurred over multiple future days, single-day transaction prices are likely to overcorrect both to the upside and the downside, creating market timing opportunities. While acknowledging the potential for well-informed market timers to profit from a fund's swing pricing policies, the Release asserts, incorrectly in our view, that non-redeeming investors would suffer no harm as a result.[26]

Potential Marketplace Distortions.

As described above, the benefits to reported fund performance from adopting swing pricing and employing swing pricing aggressively (low swing threshold and high swing factor) creates a competitive advantage for funds that are in a position to implement swing pricing. In the near-term, it seems highly unlikely that most broadly held mutual funds can do so. Until the systems and workflows supporting the calculation of fund NAVs and the processing of shareholder transactions are retooled to accommodate swing pricing, only the small subset of funds that are directly marketed or have narrow shareholder bases (such as seed funds) could utilize swing pricing. If the Commission seeks to move forward with the Swing Pricing Proposal, we urge that adoption or effectiveness be delayed until the required systems modifications have been made to support use of swing pricing by most broadly held funds. Doing otherwise imparts an unwarranted advantage to the narrow group of funds that are in a position to adopt swing pricing ahead of broad market availability, distorting marketplace competition.

Misleading Terminology.

Under the Swing Pricing Proposal, a fund that adjusts its transaction prices from NAV by a swing factor would refer to the adjusted transaction prices as "NAV," and actual, unadjusted NAVs would not be disclosed. In her address to the General Membership Meeting of the Investment Company Institute on May 20, 2016, SEC Chair Mary Jo White highlighted the

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25 Successful market timing would also require thwarting a fund's anti-market timing policies and procedures. At a minimum, the increase in short-term fund performance volatility induced by swing pricing will place added pressures on a fund's anti-market timing measures.

26 See Release at pages 335-336: ". . . we believe that investors who purchase shares on a day that a fund adjusts its NAV downward would not create dilution for non-redeeming shareholders. Shareholders' purchase activity would provide liquidity to the fund, which could reduce the fund's liquidity costs and thereby could also decrease the swing factor. This could potentially help redeeming shareholders to receive a more favorable redemption price than they otherwise would have if there had been less purchase activity on that day, but would not affect the interests of non-redeeming investors." We disagree. For the interests of non-redeeming fund shareholders to be unaffected by the purchase of fund shares at a discount to NAV, the swing factor in effect must match the fund's same-day costs of accommodating net redemptions, which, by design, is not normally the case.

importance of funds reporting their daily NAVs accurately, stating that "it is essential that the accurate pricing of the portfolio holdings and NAV calculations are carefully considered . . . [and] that the services used to assist funds with pricing do so accurately."[27]

In our view, the provisions of the Swing Pricing Proposal that would require funds adopting swing pricing to refer to their adjusted transaction prices as NAV are inconsistent with Chair White's recent statement emphasizing the importance of NAV accuracy. The proposed use of misleading terminology to characterize a fund's transaction price is also inconsistent with principles of "plain English" disclosure, truth in labeling and transparency. As noted above, use of NAV to denote a fund's transaction price also raises investor protection concerns by implying that share transactions take place at the fund's current net asset value per share and masking the transaction costs that may apply. If the Swing Pricing Proposal is adopted, we strongly urge the Commission to require the term "transaction price" be used to denote the price at which a fund utilizing swing pricing issues and redeems its shares whenever the transaction price deviates from actual, unadjusted NAV.

Unfair Treatment of In-kind Transactions.

Recognizing that in-kind transfers of portfolio securities generally do not expose funds to the same flow-related costs incurred in connection with cash inflows and outflows, proposed rule 22c-1(a)(3) requires funds to exclude in-kind purchases and redemptions from their determination of whether the swing threshold has been exceeded on a particular day. This makes sense. Yet, under the Swing Pricing Proposal, purchases and redemptions of fund shares on an in-kind basis would be required to be met at the same transaction price as cash transactions. Not only is this proposed treatment grossly unfair to in-kind purchases and redemptions, it discourages what can be a highly valuable practice to manage fund liquidity and minimize fund flow-related costs.

Improving the Swing Pricing Proposal

As indicated above, we believe the Swing Pricing Proposal is deeply flawed and does not represent an improvement over other available remedies to address flow-related fund costs. Accordingly, we strongly recommend that the Swing Pricing Proposal be withdrawn.

If the Commission seeks to move forward with the Swing Pricing Proposal, we believe a number of modifications are necessary and appropriate:

- Delaying adoption or the effective date of the Swing Pricing Proposal until such time as the Commission staff determines that the necessary changes in the daily share processing systems and protocols required to implement swing pricing on an industrywide basis have been made and are in effect;

[27] See https://www.sec.gov/news/speech/white-speech-keynote-address-ici-052016.html.

- Requiring that a fund's permitted swing pricing adjustments be limited to amounts reasonably related to the fund costs arising in connection with the associated shareholder capital transactions;

- Providing appropriate safeguards to funds, fund advisers and fund boards of directors against regulatory sanctions and legal liability in connection with implementation of swing pricing consistent with approved fund policies and procedures and the requirements of proposed rule 22c-1(a)(3) as adopted;

- Requiring funds utilizing swing pricing to refer to the prices at which shares are issued and redeemed as the fund's "transaction price," rather than "NAV;"

- Requiring funds utilizing swing pricing to base reported fund returns, including for purposes of calculating performance-based fees, on actual, unadjusted fund NAVs, rather than transaction prices adjusted to reflect swing pricing;

- Requiring funds utilizing swing pricing to include prominent disclosure of the actual impact (*i.e.*, number of basis points) of swing pricing on reported fund returns whenever historical performance is shown, either in fund summary and statutory prospectuses, fund semiannual and annual shareholder reports, and fund websites, factsheets and other advertising and promotional materials;

- Requiring funds utilizing swing pricing to process all purchases and redemptions of shares met in-kind through the transfer of securities acceptable to the fund at the actual, unadjusted NAV of the fund on the date of the transaction; and

- Requiring funds utilizing non-transparent swing pricing to include in their summary and statutory prospectuses and sales and marketing materials an "Investor Protection Warning" similar to the following:

> ***Swing Pricing Investor Protection Warning***
>
> ***Whenever you buy or sell shares of this fund, your purchase or sale may be subject to undisclosed transaction costs. Such costs are not subject to any limit and may be significant. Under the fund's "swing pricing" policies, you will pay transaction costs whenever (a) you buy or sell shares consistent with the prevailing direction of the fund's total daily net purchases or sales (i.e., you buy on a day when inflows exceed outflows or sell on a day when outflows exceeds inflows) and (b) the fund's daily net purchases or sales exceed an undisclosed threshold percentage of the fund's net assets. Because the fund's total daily purchases and sales may not be known at the time the fund's daily price is determined, transaction costs may be imposed based on estimates. If those estimates are inaccurate, you may pay transaction costs in error, but should not expect to be reimbursed or made whole when that happens.***

The transaction costs you pay are intended to offset the costs the fund incurs in connection with purchases and sales of fund shares. The transaction costs you pay will partly benefit the fund, and partly benefit buyers or sellers of fund shares who, on the same day, transact in the opposite direction (i.e., buy when you sell, or sell when you buy). If daily buys and sells are closely balanced, most of the transaction costs you pay will benefit other transacting shareholders, rather than the fund.

The amount of shareholder transaction costs paid on any day may vary substantially from the associated flow-related costs borne by the fund and need not be reasonably related to the amount of such costs. Because shareholder transaction costs collected by the fund add to reported fund performance over time, the fund's adviser has a financial incentive to assess high shareholder transaction costs.

In reporting fund performance, the fund's daily returns are adjusted by the gross amount of transaction costs paid, whether benefiting the fund or other shareholders. On days when buyers of fund shares pay transaction costs, the fund's daily returns are increased by the entire gross amount of transaction costs paid. Conversely, on days when sellers pay transaction costs, the fund's daily returns are reduced by the gross transaction cost amount. Reflecting shareholder transaction costs in this manner increases the volatility of reported fund returns. Over time, the fund's reported returns will increase by the amount of shareholder transaction costs benefiting the fund.

Although shareholder transaction costs result in higher reported fund performance, you should understand that the aggregate returns earned by fund shareholders as a whole do not increase. Shareholder transaction costs raise the investment returns earned by long-term fund shareholders and buyers and sellers of shares who transact against the prevailing direction of daily fund flows. By an offsetting amount, shareholder transaction costs reduce the investment returns of shareholders who buy or sell fund shares consistent with the prevailing daily flow direction.

Before investing in the fund, you should understand that your purchase and/or subsequent sale of fund shares may be subject to undisclosed transaction costs that are not subject to any limit and may be significant. Application of transaction costs to your purchase or sale could cause the returns you realize to fall significantly below the aggregate net returns of the fund's portfolio holdings over the period of your investment.

Inherent Deficiencies of Swing Pricing

Even if all of the recommended modifications to the Swing Pricing Proposal described above are implemented, the proposal will continue to have major deficiencies that we believe argue strongly against adoption. These include:

- The massive reworking of the established systems and protocols used by fund service providers and distribution intermediaries to process fund shareholder transactions that would be required to enact swing pricing across the fund industry, the costs of which are not considered in the cost-benefit analysis included in the Release;

- The sanctioned lack of disclosure, either prospectively or retrospectively, to transacting fund shareholders of the transaction costs they pay, raising non-transparency and investor protection issues;

- The use of imprecise, difficult-to-quantify and highly variable cost inputs and forced reliance on preliminary flow estimates to effect swing pricing, raising fairness issues and potentially exposing funds to reprocessing costs and regulatory and legal risks;

- Little or no ability of swing pricing to influence investor behavior to deter destabilizing flows; and

- Leakage of the benefits of swing pricing from the subject fund to transacting shareholders who trade against the prevailing flow direction.

To our thinking, the most critical flaw of swing pricing as a tool for addressing flow-related fund costs is the irresolvable conflict between (a), on the one hand, protecting a fund against potential "gaming" behavior by transacting shareholders that can erode the protective benefits of swing pricing and reward market timing and (b), on the other hand, providing transacting shareholders with sufficient transparency to avoid exposing them to hidden costs and to incentivize stabilizing shareholder behaviors (*e.g.*, discouraging redemptions and/or encouraging fund purchases during net outflow periods).

Although not required by proposed rule 22c-1(a)(3), a fund would be permitted to disclose its swing threshold and swing factor currently in effect. Doing so would address some of the investor protection issues raised by the Swing Pricing Proposal and may also enhance swing pricing's ability to promote stabilizing shareholder flows. The more information available to help investors assess whether a fund's transaction price on a given day is, for example, likely to be at a discount to NAV, the greater the ability of swing pricing to motivate shareholders who are considering a redemption to defer action until a later date and/or to encourage potential purchasers to buy the fund now.

Although disclosing a fund's swing threshold and swing factor in effect would enhance transparency and may promote stabilizing investor flows, doing so can also undermine the effectiveness of the fund's swing pricing program by enabling potentially harmful investor behaviors. As cited in the Release,[28] a fund shareholder with knowledge of the fund's swing threshold could seek to avoid paying transaction costs in connection with a large redemption of shares by breaking the transaction into multiple tranches to be executed over successive days, each sized to fall under the swing threshold. While the cost to the fund of processing the redemption may be substantially the same as if executed in a single day, the offsetting compensation to the fund may be eliminated.

Disclosing a fund's swing threshold and swing factor could also exacerbate the threat of abusive market timer trading in fund shares. Armed with knowledge of a fund's swing threshold and swing factor, an investor who learns how to anticipate a fund's daily net flow patterns with reasonable accuracy could earn short-term profits by buying a fund's shares at a discount (on days when daily net outflows exceed the swing threshold) and/or redeeming shares at a premium (on above-threshold net inflow days). Because, by design, swing factor adjustments normally reflect fund costs to be incurred over multiple days, transaction prices will typically overcorrect both to the upside (on net inflow days) and to the downside (on net outflow days) when swing pricing is in effect.

The increase in short-term performance volatility that accompanies swing pricing will undoubtedly make funds employing swing pricing more interesting to market timers. Disclosing a fund's swing threshold and swing factor would provide potential market timers with valuable information to help them target their attacks and enhance their winnings at the expense of other fund shareholders.

Use of swing pricing forces funds into an irresolvable conflict: *needing to avoid disclosure* of swing thresholds and swing factors to minimize shareholder gaming and to keep market timers at bay; while also *needing to disclose* swing thresholds and swing factors to provide shareholder with transaction cost transparency and to incentivize stabilizing shareholder flows.

Given this irresolvable conflict and the other major defects of the Swing Pricing Proposal, we conclude that the overall merits of swing pricing as a mechanism for addressing flow-related fund costs fall far short of justifying the massive investment that would be required to implement swing pricing across the U.S. fund industry.

Alternatives to Swing Pricing

Relevant to the consideration of the Swing Pricing Proposal is the availability of alternative means for achieving the proposal's objectives. Open-end funds now have at their disposal two primary mechanisms for addressing flow-related fund costs:

- Imposing transaction fees (*i.e.*, redemption fees and purchase fees) on buyers and sellers of shares to offset the associated fund costs; and

[28] See Release at pages 216 and 336.

- Using in-kind purchases and redemptions of fund shares to minimize flow-related fund costs.

Setting aside implementation issues for the moment, both fund transaction fees and use of in-kind purchases and redemptions offer notable advantages over swing pricing as mechanisms for addressing fund costs in connection with shareholder inflows and outflows. Looking first at transaction fees, a key distinction versus swing pricing is that all of the benefits of fund transaction fees accrue to the fund, whereas in swing pricing a portion of the benefits are diverted to transacting shareholders on the other side of the prevailing daily flow direction. Avoiding the diversion of benefits to other transacting shareholders provides three major advantages for transaction fees over swing pricing:

- Transaction fees *are more efficient collection mechanisms* than swing pricing;

- Transaction fees *do not create market timing opportunities*; and

- Transaction fees *may be fully transparent without adverse effects*.

Because all the benefits of transaction fees accrue to the fund, there is no risk of attracting market timer activity and no need to minimize disclosure. Unlike swing pricing as reflected in the Commission's proposal, fund transaction fees are required to be fully transparent, and can be so without risk of adverse consequences to the fund. The disclosure of fund transaction fees also serves to limit the temptation fund sponsors may have to apply transaction fees aggressively to augment stated fund performance.

The second available mechanism for addressing flow-related fund costs, in-kind purchases and redemptions, offers substantial advantages over both swing pricing and transaction fees, but also significant implementation hurdles for broadly held mutual funds. When shareholder transactions are effected in kind by the transfer of portfolio securities acceptable to the fund, the fund costs to accommodate inflows and outflows can be substantially eliminated. Compared to swing pricing and transaction fees:

- In-kind purchases and redemptions *eliminate the guesswork and imprecision of setting appropriate charges* for transacting shareholders;

- In-kind purchases and redemptions *enhance fund liquidity and minimize fund cash drag* by reducing or eliminating the need to hold reserves against redemptions; and

- In-kind purchases and redemptions *promote fund tax efficiency* by reducing or eliminating required sales of appreciated fund assets to meet redemptions.

Implementation Considerations.

Key rationales for the Swing Pricing Proposal set forth in the Release are the Commission's understandings that (a) use of fund transaction fees is constrained primarily by operational complexity and (b) swing pricing will be easier to implement than transaction fees. As described above, we believe these understandings are both incorrect.

In our judgment, the apparently greater acceptance of swing pricing over fund transaction fees in jurisdictions where swing pricing is now used is explained by differences in transparency. If shareholders of funds utilizing swing pricing are not aware of the transaction costs they pay, they know of no reason to complain. The same would be true if fund transaction fees were also invisible.

The investor protection considerations that mandate disclosure of fund transaction fees apply equally to the shareholder transaction costs imposed in swing pricing. With the same level of disclosure, we see no reason to believe that investors would favor swing pricing over transaction fees as a means to offset flow-related fund costs.

As described above and also discussed in numerous other comment letters, implementation of swing pricing for broadly held mutual funds in the U.S. would require a massive reworking of the systems and protocols used by fund service providers and distribution intermediaries to process fund shareholder transactions each business day. We see no support for the Commission's apparent belief that swing pricing will be easier to implement in the U.S. than fund transaction fees and no justification for the substantial commitment of resources that would be required to implement swing pricing across the fund industry. In our view, the objectives of the Swing Pricing Proposal could be achieved in a fairer, more efficiently and less costly manner through wider usage of fund transaction fees.

Although in-kind purchases and redemptions offer significant advantages over both swing pricing and transaction fees as a means for addressing flow-related fund costs, we believe there is little prospect for widespread adoption across the mutual fund industry due to the impracticalities of apply in-kind transactions to broadly held mutual funds.

Exchange-Trade Products.

Unlike with mutual funds, transaction fees and in-kind purchases and redemptions are in widespread use today among ETFs. The practice of issuing and redeeming shares only in creation unit quantities by or through authorized participants makes in-kind transactions and the imposition of fund transaction fees much simpler and more operationally feasible for ETFs than for mutual funds. In fact, the shareholder protection benefits that can be readily achieved using these mechanisms are among the most important structural advantages of ETFs over mutual funds. What the Commission now seeks to achieve for mutual funds through the Swing Pricing Proposal already exists, in much improved form, for ETFs.

As the Commission is aware, Eaton Vance and its affiliate NextShares Solutions LLC are the principal sponsors of NextShares™ exchange-traded managed funds (NextShares). NextShares are a new type of actively managed exchange-traded product introduced in the first quarter of 2016. Like existing ETFs, NextShares funds use in-kind purchases and redemptions and transaction fees imposed on creation unit transactions to mitigate flow-related fund costs.

NextShares differ from actively managed ETFs by maintaining the confidentiality of their proprietary investment strategies and employing a novel share trading protocol called "NAV-based trading" that provides unparalleled transparency of investor trading costs.[29] For actively managed funds, we view NextShares as providing a far superior solution to the objectives of the Swing Pricing Proposal than the proposal itself.

Conclusion

As described herein, our analysis of the Swing Pricing Proposal leads us to conclude that the proposal is deeply, fundamentally and irreparably flawed and should be withdrawn. Due to major operational impediments, swing pricing is unlikely to see widespread use among broadly held funds anytime soon. Even if the operational impediments to swing pricing could be overcome, we do not believe adoption of the Swing Pricing Proposal would be in the best interests of investors. The lack of transparency and inadequate safeguards in the Swing Pricing Proposal raise investor protection and other concerns that we believe outweigh the benefits of offsetting fund flow-related costs and possibly inducing more stable investor flows. Modifying the proposal to add transparency and better protect the interests of transacting shareholders would have the deleterious effect of also increasing the risk of shareholder gaming behaviors and market timer activity in funds utilizing swing pricing.

In our judgment, the massive commitment of industry resources that would be required to implement swing pricing is unwarranted and unnecessary. Mutual funds can readily utilize fund transaction fees as a better alternative for accomplishing the same purposes. In ETFs and NextShares, far more effective remedies for addressing flow-related fund costs already exist. Left alone, market forces will drive fund flows to these superior solutions.

* * * * *

[29] In NAV-based trading, all bids, offers and execution prices are expressed by reference to the fund's current NAV. If, for example, an investor buys shares of a NextShares fund at two cents over NAV and the fund's closing NAV on that day is $20.00, the investor's purchase price is $20.02. NextShares funds also publicly disclosing the fees applicable to creation unit transactions and explicitly limiting such fees to amounts determined to be appropriate to defray the associated fund costs.

Eaton Vance appreciates this opportunity to express our views on the Swing Pricing Proposal. If you have any questions or wish to discuss these comments, please feel free to contact me at your convenience.

Sincerely,

Thomas E. Faust Jr.

cc: The Honorable Mary Jo White
The Honorable Kara M. Stein
The Honorable Michael Piwowar
SEC Commissioners

David W. Grim, Director
Diane M. Blizzard, Associate Director
Sarah G. ten Siethoff, Assistant Director
SEC Division of Investment Management

Eaton Vance
Investment Managers

Assessment of Swing Pricing Proposal

June 2016

Swing Pricing Proposal

- Is deeply, fundamentally and irreparably flawed
- Not an improvement over other available remedies to address flow-related fund costs
- Massive investment to implement across fund industry is unwarranted and unnecessary
- Should be withdrawn

Investor Protection Deficiencies

- Exposes fund shareholders to hidden transaction costs
- Provides investors with misleading information about comparative fund performance
- Inadequate safeguards to prevent overly aggressive use of swing pricing to enhance observed fund returns

EatonVance
Investment Managers

Implementation Challenges

- Widespread adoption of swing pricing would require massive retooling of share transaction processes and workflows
- Necessitates coordinated action across broad network of fund service providers and distribution intermediaries
- Major expenditures not reflected in Commission's cost-benefit analysis
- Uneven availability will create marketplace distortions

Eaton Vance Investment Managers

Other Proposal Shortcomings

- Little or no ability to favorably influence investor behavior due to lack of transparency
- Pricing adjustments prone to errors and second-guessing
- Diversion of swing pricing benefits from fund to other transacting shareholders
- Potential for fraud and abuse

Irresolvable Conflict of Swing Pricing

On the one hand, seeks to . . .

- Protect fund against gaming behaviors
- Avoid creation of market timer profit opportunities

On the other hand, seeks to . . .

- Provide cost transparency to transacting shareholders
- Promote stabilizing shareholder flows

Eaton Vance Investment Managers

Alternatives to Swing Pricing

Redemption/Purchase Fees

- Are fully transparent
- Do not create market timer opportunities
- Avoid diversion of benefits from fund to other shareholders
- Substantially easier to implement than swing pricing

Alternatives to Swing Pricing

In-Kind Purchases and Redemptions

- Eliminate guesswork and imprecision of setting appropriate charges
- Enhance fund liquidity and help minimize cash drag
- Promote fund tax efficiency
- Infeasible for broadly held mutual funds; in wide use among exchange-traded products

Eaton Vance Investment Managers

Better Options than Swing Pricing

- More widespread use of mutual fund transaction fees
- Market forces continue to drive demand to shareholder-protective fund structures
  - Exchange-traded funds
  - NextShares™ exchange-traded managed funds

Eaton Vance Investment Managers