Eaton Vance Utilities A		
Fund Facts		
Symbol	EVTMX	
Website	www.eatonvance.com	
Address	Eaton Vance Group, 255 State Street, Boston, MA 02109	
Tel. No.	800-225-6265	
Inception	12/18/81	
Portfolio		
Total Net Assets *		$268
Avg Mkt Cap ($ Weighted) *		$18,900
Average Price/Earnings Ratio		16.74
Average Price/Book Ratio		1.87
Turnover Ratio		169%
Investment Information		
New Investment		Open
Min Initial Investment		$1,000
Min Subsequent Investment		$50
Min Initial IRA Investment		$50
Risk (Against Std Index - 3-yr Average)		
	EVTMX	Category Avg.
Alpha	-5.34	-8.52
Beta	0.56	0.58
Returns vs. Lipper Utility Fund Index		
	EVTMX	Index
1 Year (Cum.)	-16.87%	-24.30%
3 Year (Ann.)	-12.15%	-16.10%
5 Year (Ann.)	2.06%	-4.84%
Returns vs. S&P 500		
	EVTMX	Index
1 Year (Cum.)	-16.87%	-24.76%
3 Year (Ann.)	-12.15%	-16.09%
5 Year (Ann.)	2.06%	-3.77%
Fees and Expenses		
Max Sales Charge - Front		5.75%
Max Sales Charge - Deferred		0.00%
Redemption Fee		0.00%
Total Expense Ratio		1.10%
Portfolio Manager		
Judith Saryan		03/01/99
** millions*		*Data through: 03/31/03*
Source: Company Documents; Lipper		

TICKER's Choice

Everything Old Is New Again

Eaton Vance Utility might surprise you by being more like the conservative utility funds from years past. Since 1999, Judith Saryan has returned the portfolio to its traditional approach of seeking high quality issues that pay good yields. The approach has kept the fund's number one ranking for the past five years for total return.

Q: What is your Fund's investment objective and what strategy do you use to achieve that objective?

A: Our objective is total return, which is a combination of growth and income. Our strategy for achieving that objective is to invest in high-quality utilities stocks, which have a yield offering. That is an important part of our investment strategy to invest in stocks that provide a dividend yield. We also have a diversified portfolio of utilities so that we spread out the risk. We do a lot of things to try and minimize risk in the portfolio. One way of minimizing risk is through diversification. We are also using fundamental analysis, which is the base of the Fund and the Eaton Vance approach to investing. We focus on quality companies with good balance sheets and strong cash flow generation. When we say that we are diversified within utilities, we can include telephone, communications, services companies (regional Bell, AT&T), electric utilities, and natural gas utilities. So, the companies in those sectors make the bulk (90%) of the portfolio.

Q: What is your stock-picking methodology? Are you a bottom-up or top-down investor?

A: We are both. Our primary focus is on bottom-up analysis. However, we have been flexible and we are willing to invest a little more in electric companies if we think that the outlook is better for the electric versus the telephone companies and vice versa. Those kinds of decisions would be somewhat set by bottom-up analysis. We are just trying to find the best companies and the best stocks to invest in. Right now we are at about 62% electric and natural gas utilities, and 29% in telecommunication services. We see that as a pretty balance type approach. We are not going to differ much more from that. The most will be 5% on either side.

Q: What valuation metrics do you use?

A: In terms of metrics, we are fundamental analysts and we try to look at all the different characteristics of a company. We do not have a set metric, but we do look at valuation metrics like the P/E ratio, and enterprise value to EBITDA, especially if we are comparing international securities, those metrics make them a little more comparable. We also use balance sheet metrics, such as debt to total capital, and cash flow coverage of interest expenses. We focus primarily on our own research, but we also use outside research. However, we feel that the responsibility lies with us so we would never base a decision solely on sale side research.

Q: You have about 40% of the portfolio in your top 10 holdings and you have a total of 50 holdings, do you not consider that too concentrated and what are the risks associated with that?

A: I took over the Fund about three and a half years ago and at that time the Fund was even more concentrated. We've been gradually reducing the concentration and I think it is probably a little less than 40% now. I think it is appropriate not to be too concentrated in the portfolio. At the same time because we are so fundamentally oriented and because we really feel that we need to know very well the companies that we invest in, that is one reason why we may have a little bit more holding in that company. We are not trying to diversify for the sake of diversification. We want to make sure that we are diversifying in companies that we feel very strongly about as good quality, high integrity companies. We are looking for integrity and that will be one reason why we are a little more concentrated. One of my goals is to keep that number down.

Q: What happened with the utilities stocks after the euphoria surrounding the California energy crisis?

A: A lot of things have happened and I think what it boils down to is supply and demand. I guess two things, deregulation and supply and demand. When deregulation came into the industry about 8 years ago, the industry found itself short of capacity. Many companies decided that they were going to invest in the business. They built power plants because they felt that was a big opportunity with deregulation; hence, they could get good prices and good returns. Several companies, both inside and outside the industry, decided to invest in the business and a lot of capital flowed in. They've built a lot of capacity and a lot of it is coming online this year and next year. So, what happened is that when the economy slowed down dramatically, the demand dried up on the industrial side and it stopped growing, in fact it declined last year considerably. However, the supply kept coming in, so you end up having a mismatch in supply and demand. It was basically the deregulation, which led to the capital flowing into the industry and too much investment. It was getting into a classic commodities cycle, and this really hurt the companies that invested heavily in power plants. It hasn't really hurt a lot of the more traditional utilities that didn't invest heavily in power plants, but took a more measured approach to the business. So, that is what went wrong. We have a lot of capacity now, and the reserve margin being the excess capacity relative to demand has gone up and it will take a couple of years to work through that. Power prices have been depressed and that has hurt the companies that have exposed themselves more to commodities.

Q: You also have significant investments in telecom. In relation to that, I read in a recent market commentary a bold statement, which said that telecoms have shown no turn whatsoever outside of wireless, and wireless is a winners-losers game with no real growth. What is your take on that statement?

A: A lot of people are predicting that telecommunications is not going to grow and I would differ with that assessment. First, we are in a slower economy and that has an impact. These companies are impacted on the revenue line by the economy. Secondly, if you look at the Canadian telephone company BCE, they are actually showing some revenue growth in their business that is due to a variety of factors, but one of them is that it has less effective competition in Canada. But the point is that if you are looking at a company that faces less competition, you are seeing that despite the fact that prices aren't going up, you are getting revenue growth because underlining the business is some growth. I do believe that there is some growth in this business and that will come out when the economy starts to improve. So, it may not be the kind of growth that we had expected 3 years ago. Given that the companies that we invest in are basically very high quality, strong cash flow generators, and have a good balance sheet - there is a lot that these companies can do with cost cutting and lowering their CAPEX to improve the returns. If they can just get a little bit of revenue growth that will come down in spade to the bottom line, you'll see very strong earnings growth as a result. I think they could be the classic "coming out of the recession". That is what I'm looking for out of the telecom sector. I just don't agree with the people who are saying that there is no return.

Q: Did you own Enron?

A: We did own Enron. We sold it and we made money in the portfolio. We sold it late 2000, early 2001 primarily for fundamental and valuation reasons. It was our fundamental research that prompted us to sell it.

Q: How do you arrive at selling decisions?

A: We have selling criteria. One is through our fundamental research. If we find that things are changing or have changed this is probably the most important reason that we should sell a stock. Secondly, we have a self-discipline that everyone at Eaton Vance uses within his or her own parameters. If a stock drops 15% below its purchased price, we take a very close look and we'll often sell the stock because it's a very good strategy to use for capital preservation. It is also a good strategy to limiting taxes by taking losses. A third reason that we might sell is if we find a better opportunity, and a fourth reason is if the stock reaches our valuation target.

Q: What is the time horizon on your target price?

A: We are trying to keep our overall time horizon to three years. However, if a stock exceeds our time horizon in a short period of time that makes us even more inclined to sell. If it achieves the target very quickly, then the return is much greater than we expected, and then we think that from here on the returns may not be as good.

Q: The utilities funds used to be a safe heaven but that has changed in recent years. How is a utility fund benefiting the investor now in those volatile markets?

A: What we are trying to do here at Eaton Vance is provide investors with a more conservative utility fund choice. This is a utility fund more like the one people would have expected to invest in 10-15 years ago. We are focusing on high-quality companies with good cash flow generation, with potential to raising their dividend. I think we are providing some anchor here in a volatile market and the dividend certainly helps. If you look at our performance over the last year and over the last three years, what we've been able to determine is that our returns have actually been better than, not only the S&P utility index and the Lipper utility fund universe, but also better than the S&P 500 over one year, three-year, and five-year returns as well. We've been able to do that with lower risk, and we measure that with a standard deviation of return. We are still providing that anchor in a stormy environment.

Q: What is your outlook on the markets that you participate in?

A: The outlook for utilities is actually very good, relative to the overall market. There are a couple of reasons why I am saying that. One is valuation. Valuations are still relatively attractive versus the overall market, particularly when you look at the yield of the average utility versus the 10-year treasury. The utility is still running an above average yield and generally that is a good time to buy the stock. On the fundamental side, the companies are taking steps to cut back on capital expenditures, improve their cash flow, improve their balance sheet, and use the cash generation to either improve the balance sheet or pay out some more dividends. All of this cost cutting will lead to better returns. This tends to be a very good, fundamental time to buy utility stocks. Secondly, there is legislation in congress that could be very positive for utilities. One reason is that if they do move ahead on removal of double taxation of dividends, it will be very positive for the markets and in particular for high yield stocks. Secondly, if the energy bill passes there is a high likelihood that they would remove PUHCA (Public Utility Holding Company Act), which has been a damper to consolidation in the industry, so that will be a plus. ■

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> *"**Our objective is total return**, which is a combination of growth and income. Our strategy for achieving that objective is to invest in high-quality utilities stocks, which have a yield offering."*

About: A Chartered Financial Analyst, **Judith A. Saryan** joined Eaton Vance Management in 1999 as a vice president. Previously, she was the portfolio manager for the International Growth Opportunities Fund at State Street Global Advisors. An experienced utilities analyst, she also managed the Colonial Tax-Managed Trust, a tax-managed utilities fund. Saryan earned her B.A in economics from Wellesley College.