

NEWS RELEASE



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Seventh Annual Eaton Vance National Investor Survey Finds:

Investors Place Record High Importance on Effect of Taxes on Returns and Support Tax Cut Extensions

Realities of Current Potential Mutual Fund Capital Gains Distributions Haven't Come Home to Roost

Investors Gaining Tax Savvy but Still Need Specific Advice

BOSTON, December 6, 2005 – Eaton Vance Corp. announced today the findings of its seventh annual survey of investors. Investors are placing more importance than ever on the tax implications of investing and conceptually support an extension of tax cuts. While there are indications investors are generally getting smarter about taxes, many remain confused about how to invest for tax-efficiency and retain unrealistic expectations about potential capital gains distributions.

The nationwide survey, conducted by Penn, Schoen & Berland Associates, Inc., reveals that 9 out of 10 investors (89%) say the impact of taxes on their investment returns is important to them. This is the highest level of importance ever registered by the annual Eaton Vance National Investor Survey. In addition, a majority of investors polled (52%) described the impact of taxes as very important, a 10 percentage point increase over last year.

Investors Support the Extension of 2003 Tax Act Provisions

Nearly half (43%) of investors surveyed say President Bush's tax cuts helped the economy, as compared to 26% who say they hurt the economy. A majority of investors (55%) believe the economy would be hurt by a failure to extend the 2003 Tax Act beyond 2008, when some of its provisions are set to expire.

“Although we likely won't know until next spring what will become of the 2003 Tax Act, a majority of investors seem to support an extension of the tax cuts for economic reasons,” said Duncan W. Richardson, chief equity investment officer at Eaton Vance

Management. "If investors are hit with substantial capital gains this year, their enthusiasm for continued capital gains tax relief could well build into a march on Washington come tax time."

Investors' Expectations about Cap Gains Taxes Out of Step with Reality

Half of the investors polled (50%) say they are concerned they may be subject to increasing capital gains taxes. Nearly half (47%) say they paid taxes on capital gains in 2004 and 65% said they paid them within the past 5 years. Yet, surprisingly, only 46% of investors expect to pay capital gains this year. While this expectation seems slightly more realistic than last year--when only 40% expected to pay cap gains taxes--it also seems destined for disappointment given industry predictions about rising cap gains.

"Unfortunately, investors' views on capital gains are an example of hope triumphing over experience. There is little to justify investors' apparent expectation that capital gains taxes will be flat year-over-year," said Mr. Richardson. "In fact, even with modest equity market returns this year, capital gains distributions could be quite high."

At the end of 2002, the average domestic equity mutual fund was sitting on unrealized capital losses equal to 47% of its assets, according to published reports citing Chicago fund tracker Morningstar Inc. Generally favorable equity returns since then have largely eliminated the capital loss buffer and resulted in an uptick in capital gains distributions from mutual funds. From 2003 to 2004, short-term capital gains paid by mutual fund shareholders more than doubled from \$5.2 billion to \$11.8 billion and long-term capital gains quintupled from \$9.96 billion to \$50.22 billion, according to Lipper, Inc., the New York fund-research firm. In August 2005, Morningstar estimated that the average fund's realized losses within equity funds had shrunk to just 8% of assets.

Rising Familiarity with Tax-Advantaged Investments

The survey revealed investors understand more about tax-efficient investing than ever before. A majority of respondents (50%) selected low-yielding growth stocks held long term (18%) and municipal or tax-free bonds (32%) among types of investments they thought offered high-tax efficiency. A growing number of investors (44%, as compared to 27% in 2001) also said they have invested specifically with consideration to after-tax returns or tax efficiency.

More investors have found their way to tax-managed funds due to investment advice from their financial advisors (43%). Last year, 29% percent said they had heard about tax-managed funds from their advisor. Of the 36% of investors who say they are familiar with tax-managed stock mutual funds, a growing number said they had invested in such funds (40%, up from 29% in 2001). In comparison to years past, more investors who have used these and other tax-efficient vehicles correctly identified their primary objective as maximizing after-tax returns--29%, up from 15% in 2001.

Investors also show an interest in learning more about the effect of taxes on their investments. The Eaton Vance study has consistently shown over time that roughly 70%

of investors polled say they carefully review the statements they receive from their investment manager or advisory firm with regard to tax implications related to their investments. Further, 84% of investors say they consider disclosure by fund companies of the tax implications of investing important.

Current Tax Rates and Best Tax Practices Still Stump Investors

As in years past, investors' detailed level of knowledge on taxes remains low. Many remain unaware of current tax rates and know little about how to best use tax-managed investments. For instance, according to this year's survey, only 1 in 8 investors (12%) can correctly cite the current maximum federal tax rate for ordinary income, and only 1 in 4 investors (27%) can identify the maximum federal tax rate for long-term capital gains (which is 15% for those in a 35% bracket).

"Many investors don't appear to realize that the 2003 Tax Act created some great opportunities to increase after tax returns," said Mr. Richardson. "Studies have shown that 2% per year is unnecessarily lost to taxes. It is a near certainty that tax-savvy financial advisors can add value year in and year out by recovering some of that 2% for their clients through simply knowing and making use of the current tax code."

One area where investors continue to need help is in identifying appropriate investments for qualified retirement plans, such as an IRA or 401(k). In fact, a majority of investors (54%) either believe that tax-managed stock funds are best held inside a qualified plan (40%) or are not sure (14%), whereas 46% of investors understand these funds are best held outside of a qualified plan. There appears to be slightly better recognition of the role of municipal bond funds, which 52% of investors said were better held outside a qualified plan. However, one third of respondents would still be more likely to hold municipal bonds inside a qualified plan. Investors remain even more confused about the best place to hold variable annuities--38% of respondents said they would be inclined to hold variable annuities within a qualified plan and 37% said outside a qualified plan (25% said they didn't know).

"Of course, each of these tax-advantaged investments is best utilized outside a qualified retirement plan," commented Mr. Richardson. "Investors should generally use their qualified retirement plans to shield investments that would otherwise be fully taxable. Investors who are unsure of how best to use qualified plans should consult a financial advisor to help them make the correct investment decisions."

About the Eaton Vance Investor Survey

This summary highlights the major findings of a comprehensive telephone study among 408 U.S. residents who have invested in both qualified retirement plans *and* investments outside of qualified retirement plans (stock mutual funds, bond mutual funds, individual stocks, individual bonds, variable annuities and money market funds). This study, which represents a portrait of American investors' attitudes and practices about investing, specifically with reference to the *tax implications* of investing, was conducted by Penn, Schoen & Berland Associates, Inc. for Eaton Vance Corp.

The study was conducted during the third and fourth weeks of November 2005. It is a random census-balanced representative poll of American households. Of respondents, 65% had investable assets greater than \$100,000. The margin of error for this study is +/- 4.9% at the 95% confidence level.

Penn, Schoen & Berland Associates, Inc. is a Washington, D.C.-based full-service strategic polling and market research firm.

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