

NEWS RELEASE



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**Eaton Vance Eighth Annual Investor Study Finds:
Marked Generational Differences in Investing Habits
Common Support for Dividends and
Extension of the Reduced Tax Rate on Dividends
Tax Surprises Likely; More Investor Education Needed**

BOSTON, November 30, 2006 – Eaton Vance Corp. announced today the findings of its eighth annual survey of U.S. investors, which examined attitudes among three generations of Americans: GenXers, Baby Boomers, and Seniors. The results of the study—which is one of the larger in-depth examinations of generational differences among investors in recent years—found sharp differences among the generations in terms of investing habits and beliefs. It also uncovered common ground in support for continued favorable tax treatment of dividends and retirement reform.

Income Views Differ, but Investors Dig Dividends

Investors view dividend-paying stocks positively. The great majority of American investors (73%) agree with the statement: “Firms that pay dividends tend to be predictable cash generators, and healthy dividends are a sign of financial strength.” Investors are also united by a growing preference for dividend-paying stocks. Three times as many investors (45%) say they increased investment in dividend-payers over the past three years as say they decreased investment in these stocks (16%).

Investors show a strong preference for companies using dividends to return cash to shareholders, with two-thirds (69%) indicating they prefer a company to pay a dividend rather than only buying back stock. More investors (44%) say they prefer a smaller dividend grown annually over a large but unchanged dividend (25%) or share buybacks (19%). Senior investors are more likely to indicate a preference for dividends over buybacks (74%) than Baby Boomers (62%). GenXers also indicated a strong (70%) preference for dividends.

The popularity of dividends is reflected in the fact that over half of investors (58%) say they currently invest in dividend-paying stocks. Yet, the Eaton Vance survey results also show investors from different generations do not share a like appreciation for dividends. Seniors exhibit an understanding of the income role of stocks in a portfolio, with nearly half (45%) saying they look to stocks either primarily to provide income (7%) or as a source of both income and capital

growth (38%). By contrast, two-thirds of GenX (70%) and Boomer (67%) investors say they invest in stocks primarily for long-term appreciation rather than income.

Senior investors are also likeliest to appreciate the long-term performance record of dividend payers. Over the past ten years, dividend-paying stocks in the S&P 500 Index have outperformed non dividend-payers in the index by 8.21% (Source: Ned Davis Research). Only one in seven investors overall (15%) knew this. By contrast, one out of five (21%) senior investors answered correctly. Few investors (3%) knew that nearly two-thirds, or 64%, of the overall return from stocks as measured by the S&P 500 Index has historically come from reinvested dividends (Source: Ned Davis Research).

Investors are divided in expectations for dividend growth. While few (11%) said dividends would decrease over the next few years, more investors (41%) thought payouts would remain the same than thought dividends would increase (38%). This was the prevalent view among GenXers and Baby Boomers. However, more senior investors predicted a rise in dividends (44%) than anticipated no change (35%).

“We think stocks that grow their dividends should be considered as “health food” that more Americans should be adding to their financial diets,” said Duncan W. Richardson, executive vice president and chief equity investment officer at Eaton Vance. “We are optimistic that dividend payout rates across the U.S. economy will be on the rise as company managements strive to do the right thing and investors reward their efforts.”

United on Taxation

In light of the Democratic takeover of Congress, there are renewed discussions in Washington of revisiting recent tax cuts, including those on capital gains and dividends. (The reduced 15% rate on dividend and capital gains tax will expire at year-end 2010 unless Congress acts.) The vast majority of investors (79%) say the 15% rate on dividends and capital gains should either be extended further or made permanent.

Half of investors (51%) who increased investments in dividend-paying stocks over the past three years say the reduction of the tax rate on dividend income to 15% in 2003 was a factor in their decision to do so. Nearly a third of senior investors (30%) described the reduced tax rate as a major factor in their decision to invest more in dividend payers. Should Congress make permanent the reduced dividend tax rate, nearly half of investors (44%) indicated they would either start investing in dividend payers (8%) or invest more in stocks that pay a dividend (36%). Notably, 52% of GenXers—the most of any generation—say they would start investing or increase their investments in dividend-paying stocks if Congress makes the tax cut permanent.

“Most GenXers indicate they currently invest in stocks for growth of capital, yet a decision to make the reduced tax rate on dividends permanent may encourage younger investors to diversify their portfolios more broadly to dividend-paying companies” said Mr. Richardson. “There is overwhelming investor support for the reduced tax rates on dividends, suggesting that if Congress makes these tax rates permanent, they would be reinforcing desirable behaviors by both investors and corporations.”

Shortfall in Investment Tax Education

The results of Eaton Vance’s survey show investors are still struggling to understand the tax implications of investing. As in years past, the survey asked whether three types of investments are better suited to be held inside or outside a qualified retirement plan: tax-managed stock funds; municipal bond funds, and variable annuities. Fewer than half of investors knew that tax-

managed stock funds (40%), municipal bond funds (46%) and variable annuities (39%) are most appropriate for investment accounts held outside qualified retirement plans. The need for better education about proper “asset location” is acute across all categories of investors.

When asked if they would consider tax-managed investing given a reasonable expectation of realizing 2% per year more return after taxes in their stock mutual fund over ten years, half (50%) of those who were unfamiliar with tax-managed stock funds (two-thirds of all investors) said yes. Optimistic GenXers were more likely to respond positively (63%), while only a third of more skeptical senior investors (34%) agreed.

“Given the reality of the last ten years of market returns, it is almost nonsensical to refuse an opportunity to capture an additional 2% per year in after-tax returns,” said Mr. Richardson. “A lot more education is clearly needed regarding the effect of taxes on investment returns.”

Capital Gains Conundrum

Diminishing tax loss carry-forwards from the 2000-2002 bear market, strong stock market returns beginning in 2003 and continued high portfolio turnover at many mutual funds suggest that many more mutual fund investors will experience the sting of capital gain taxes this year. However, the results of Eaton Vance’s study show that investor concern about taxes triggered by capital gains distributions is not as high as one might expect.

Half of investors (51%), including nearly three in five GenXers (58%), say they do not expect to pay taxes on capital gains in 2006.

“The results of our survey suggest fund shareholders may be in for a rude awakening when it comes to capital gains,” said Mr. Richardson. “Investors seem less concerned this year than in the past, and early indications support our belief that they should be more concerned than ever.”

Retirement Reform

The 2006 Pension Protection Act paved the way for automatic enrollment programs, employer matching, and quicker vesting—issues of great importance to younger investors who are expecting their 401(k) plans to be central to their retirement. While more than half of investors (56%) were unaware of these changes, awareness of pension reform was greater among Boomers (44%) and GenXers (46%) than senior investors (34%).

The results of the Eaton Vance survey also reflect today’s reality in terms of retirement savings. Over half of investors (55%) indicated that a 401(k) plan account is their primary retirement savings vehicle, while only a quarter indicated that their retirement savings is primarily through a pension plan or self-directed brokerage account. Nearly three-quarters of GenXers (74%) are saving for retirement primarily through a 401(k) plan.

Investors expressed strong views about mandatory withdrawals from IRAs and deferred compensation agreements. A majority of investors (59%) and even more Boomers (63%) say Congress should repeal mandatory withdrawals and allow maintenance of retirement accounts until they are needed. In general, investors overwhelmingly (85%) say that people should be responsible for structuring their own individual savings accounts rather than have the government (7%) or employers (8%) do this for them.

“Most investors think individuals should decide for themselves how to invest,” said Mr. Richardson. “Clearly the government needs to tread carefully in this area, but investors do need help to optimize the location and allocation of their investments.”

Varied Asset Preferences

The generation “gap” among investors is apparent in asset preferences. When asked what categories of investments interest them most right now, GenXers showed a two to one preference over seniors for assets that primarily provide growth of capital (64% vs. 32%). Most Boomers (57%) are also focusing primarily on capital growth investments, whereas most seniors (58%) favor investments with either purely an income orientation (23%) or mixed growth and income (35%).

Senior investors (34%) and Baby Boomers (31%) choose stocks as the investment they think of first for income generation, while GenXers (34%) say real estate. In fact, as the results of Eaton Vance’s study show, investors’ perception of real estate as a reliable return generator persists, despite the fact that the housing market has slowed dramatically, with September housing starts down 18% year-over-year (Source: U.S. Census Bureau News). Nearly as many investors predicted real estate would offer the best after-tax returns among major investment categories over the next five years as picked stocks (30% versus 35%).

The asset allocations that American investors expect to have after they retire sometimes differ dramatically from current allocations. For example, the percentage of investors who expect to have more post-retirement assets invested in stocks than anything else (14%) is far below the percentage now reporting a higher allocation to stocks than other categories (39%). Conversely, expectations for portfolios dominated by cash (16%) and bonds (13%) once retirement is reached far exceed current usage of these categories (3% and 6%, respectively). GenXers portrayed the most dramatic swing, with only 8% expecting to emphasize stocks, 19% predicting their retirement portfolio would be cash-heavy and 19% saying real estate would be the largest component of their retirement asset allocation.

“We believe those who have a greater emphasis on stocks right now and anticipate keeping a healthy exposure to stocks in retirement have it right,” said Mr. Richardson. “Large-cap, blue-chip domestic dividend paying stocks are very attractive and may be the best performing asset for the next three to five years. Due to lower returns anticipated from real estate and bonds, we also think the asset allocation models that have been used for the last 30 years may be wrong. People need to maintain equity exposure as they retire to help ensure they don’t outlive their assets.”

About the Eaton Vance Investor Survey

This summary highlights the major findings of a comprehensive telephone study among 1,209 U.S. residents 25 years and older (about 400 per age cohort: GenXers 40 and younger, Boomers 45 to 60 and seniors 65 years or older), who have over \$50,000 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 across three generations, was conducted by Penn, Schoen & Berland Associates, Inc. for Eaton Vance Corp.

This representative national study of 1,209 American investors was conducted between October 2 and November 11, 2006. By definition, all investors surveyed have a portfolio of at least \$50,000, excluding housing. 71% have investable assets greater than \$100,000, while one in seven have a portfolio of \$1 million plus.

The margin of error for this study is +/- 2.82% at the 95% confidence level and larger for subgroups.

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

Eaton Vance Corp., a Boston-based investment management firm, is traded on the New York Stock Exchange under the symbol EV. Through its subsidiaries, Eaton Vance Corp. advises and distributes investment funds and separate accounts for individual and institutional clients.

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