



2020  
Annual Report

 **Eaton Vance**  
Advanced Investing

"The best measure of Eaton Vance's historical success - and the root cause of that success - is the great team of people we have assembled to lead and drive our business going forward. The hard work and dedication of the 1,983 Eaton Vance employees whose names are listed on the back of this report account for what we have achieved in the past, and the bright future ahead of us as part of Morgan Stanley. In my future role as Chairman of Morgan Stanley Investment Management, I look forward to working with colleagues old and new to create the world's premier asset manager."

*Tom Faust*





## To Shareholders and Friends of Eaton Vance:

What a year! Writing these shareholder letters over the years has given me an annual opportunity to reflect on the year that was and to share my perspective on future developments likely to affect our Company and the asset management industry. Never before were my expectations for the coming year so far off base as for 2020. Among the things I missed:

- a novel coronavirus emerges in China to trigger a global pandemic, killing over 1.6 million people (and counting);
- global economic activity, employment levels and stock prices plunge, and fixed income market liquidity evaporates;
- the white-collar economy shifts, almost overnight, to working from home and communicating principally by video conference (Zoom stock +560% for the fiscal year);
- the murder of George Floyd and other incidents of police brutality against Black people precipitate a national reckoning on racism in America;
- a polarized American electorate votes to oust an incumbent Republican President and to narrow the Democratic majority in the House of Representatives, with control of the Senate hanging in the balance pending two Georgia runoff elections in early January;
- a pair of COVID-19 vaccine candidates based on novel synthetic messenger RNA technology speed through development to gain regulatory approval and launch prior to year-end, perhaps setting the stage for the end of the pandemic in 2021;



- stock markets roar back to record levels, with valuations of favored high-growth companies reflecting speculative excess; and
- after 96 years of independence, Eaton Vance enters into a definitive agreement to be acquired by Morgan Stanley.

While an unprecedented and eventful year in so many respects, the most momentous development for the shareholders and employees of Eaton Vance may be the proposed acquisition of the Company by Morgan Stanley announced on October 8, 2020. Under the terms of the merger agreement, Eaton Vance shareholders will receive at closing \$28.25 in cash and 0.5833 shares of Morgan Stanley Common Stock per share of Eaton Vance Common Stock held. The merger agreement provides that each Eaton Vance shareholder may elect to receive the merger consideration all in cash or all in stock, subject to proration and adjustment. Under the merger agreement, Eaton Vance shareholders are also entitled to receive a special, pre-closing cash dividend of \$4.25 per share of Eaton Vance Common Stock held, which was paid on December 18, 2020 to shareholders of record on December 4, 2020. As announced in October, the proposed transaction is subject to customary closing conditions and is expected to close in the second quarter of 2021.

The proposed acquisition of Eaton Vance by Morgan Stanley culminates a multi-year effort by our board of directors and senior leadership to better position the Company for long-term success amid a changing environment for the asset management industry. The combination of Eaton Vance and Morgan Stanley Investment Management brings together two growing, thriving organizations with complementary strengths in investment management and distribution. As a key component of one of the world's largest asset and wealth management organizations, we will gain access to Morgan Stanley's resources to continue investing in our investment teams, distribution and client service capabilities, technology and operating platforms, and leading brands. Morgan Stanley's distribution reach will provide greatly expanded market opportunities for us both in the U.S. and internationally. Morgan Stanley's broad capabilities in private equity, private credit and private real estate investments and high-growth public equities will also create opportunities for our U.S. intermediary market sales teams to position these high-value strategies alongside our custom portfolios and other wealth management solutions to extend our leading position serving high-end financial advisors and their clients.

## The combination of Eaton Vance and Morgan Stanley Investment Management brings together two growing, thriving organizations with complementary strengths in investment management and distribution.

On a combined basis, Eaton Vance and Morgan Stanley Investment Management will become one of the world's largest and most important global asset managers, with more than \$1.2 trillion of assets under management and expertise spanning the global capital markets. Bringing Eaton Vance and Morgan Stanley Investment Management together creates a uniquely powerful set of investment solutions to serve both institutional and individual clients in the U.S. and internationally. We are incredibly excited about the opportunity this combination presents, and look forward to seizing that opportunity beginning in 2021.

Amid all the uncertainty, upheaval and change happening in our fiscal 2020, our business continued to move forward, with positive organic growth in managed assets and management fee revenue, record ending managed assets, significant progress advancing key business initiatives and solid investment performance.

The fiscal year ended October 31, 2020 marked Eaton Vance's 25th consecutive year of positive net flows. In fiscal 2020, the Company had consolidated net inflows of \$4.7 billion, representing one percent internal growth in managed assets (consolidated net flows divided by beginning of period consolidated assets under management) and two percent internal growth in management

fee revenue (management fees attributable to consolidated inflows less management fees attributable to consolidated outflows, divided by beginning of period consolidated management fee revenue). For comparison, the Company had consolidated net inflows of \$23.9 billion, five percent internal growth in managed assets and 0.1 percent internal growth in management fee revenue in fiscal 2019.

Amid all the uncertainty, upheaval and change happening in our fiscal 2020, our business continued to move forward, with positive organic growth in managed assets and management fee revenue, record ending managed assets, significant progress advancing key business initiatives and solid investment performance.

Consolidated assets under management were \$515.7 billion on October 31, 2020, up four percent from \$497.4 billion of consolidated managed assets on October 31, 2019. The year-over-year increase reflects annual net inflows of \$4.7 billion, market price appreciation of \$11.3 billion and \$2.3 billion of new managed assets gained in the October 2020 acquisition of the business assets of WaterOak Advisors, LLC (WaterOak), a wealth management firm based in Winter Park, Florida.

The fiscal year's consolidated net inflows were driven by \$10.4 billion of net inflows into fixed income strategies and \$5.7 billion of net inflows into Parametric custom portfolios, with all other mandate reporting categories (equity, floating-rate income, alternative and Parametric overlay services) reporting net outflows for the fiscal year. The largest contributors to fixed income net flows in fiscal 2020 were Eaton Vance Management (EVM) mortgage-backed securities (\$4.1 billion), high yield (\$2.2 billion), emerging market local debt (\$1.2 billion) and municipal income (\$800 million) mandates, as well as Parametric managed municipal (\$1.0 billion) mandates. Among Parametric custom portfolios, the largest contributors to fiscal 2020 net inflows were Custom Core equity (\$6.2 billion), municipal bond ladder (\$2.1 billion) and corporate bond ladder (\$800 million) separate account mandates. Among equity strategies, the leading contributors to the fiscal year's net inflows were EVM privately offered equity funds (\$2.6 billion), Calvert responsible index (\$1.0 billion), large-cap growth (\$1.0 billion) and small-cap (\$800 million) mandates, and Atlanta Capital core select (\$1.0 billion) mandates.

Leading sources of net outflows for the fiscal year were EVM floating-rate income (-\$5.0 billion), Atlanta Capital SMID-cap equity (-\$1.4 billion) and Parametric systematic emerging market equity (-\$4.1 billion), overlay services (-\$3.5 billion), centralized portfolio management (-\$3.4 billion), covered call writing (-\$1.7 billion) and defensive equity (-\$1.2 billion) mandates.

By investment affiliate, consolidated net inflows for the fiscal year were \$4.5 billion for Calvert, \$4.0 billion for EVM, \$1.1 billion for Atlanta Capital and -\$4.9 billion for Parametric. Internal growth in managed assets for fiscal 2020 was 23 percent for Calvert, 5 percent for Atlanta Capital, 3 percent for EVM and -2 percent for Parametric. Internal growth in management fee revenue for fiscal 2020 was 25 percent for Calvert, 1 percent for EVM, -1 percent for Parametric and -2 percent for Atlanta Capital.

Since Calvert became part of Eaton Vance in 2016, we have experienced significant growth in Calvert-branded investment strategies and further distinguished Calvert as a leader in environmental, social and governance (ESG) research and responsible engagement. Including the Atlanta Capital-subadvised Calvert Equity Fund, assets under management in Calvert strategies increased to \$26.2 billion at October 31, 2020 from \$19.8 billion at October 31, 2019 and \$11.9 billion at acquisition on December 30, 2016.

While Calvert is the centerpiece of our responsible investment strategy, EVM and Atlanta Capital incorporate proprietary ESG research sourced from Calvert as an integrated component of their fundamental research processes, and personalization to reflect individual client's responsible investment criteria is a central feature of Parametric custom portfolios. As of October 31, 2020,



Parametric managed \$25.5 billion of client assets based on client-specified responsible investment criteria. On an overall basis, Eaton Vance is one of the largest participants in responsible investing, serving the growing body of investors who seek both favorable returns and positive societal impact from their investments.

In fiscal 2020, the Company saw continued growth in our specialty strategies and services for high-net-worth investors, which include Parametric Custom Core equity and laddered bond individual separate accounts, Parametric centralized portfolio management and EVM privately offered equity funds. On a combined basis, these offerings generated net inflows of \$11.5 billion and eight percent internal growth in managed assets. Parametric continues to invest in the technology and operating platforms underlying its custom separate account business to further expand Parametric's service offerings and support the high levels of future business growth we foresee.

As of October 31, 2020, 70 Calvert, Eaton Vance and Parametric mutual funds offered in the U.S. were rated four or five stars by Morningstar™ for at least one class of shares, including 32 five star-rated funds. As measured by total return net of expenses, at fiscal year-end 18 percent of our U.S. mutual fund assets were in fund share classes whose performance ranked in the top quartile of their Morningstar peer group over three years, 46 percent in the top quartile over five years and 55 percent in the top quartile over ten years. As of the same date, 54 percent of the assets invested in Calvert, Eaton Vance and Parametric U.S. mutual funds were in fund share classes ranking in the top half of their Morningstar peer group for three-year performance, 68 percent for five-year performance and 77 percent for ten-year performance. In the annual Barron's/Lipper rankings of Best Mutual Fund Families for calendar 2019, Calvert, Eaton Vance and Parametric collectively ranked 33rd overall among 55 fund families rated for one-year performance, 8th among 52 fund families based on five-year returns and 28th among 45 families for ten-year performance.

Our 49 percent-owned affiliate Hexavest, a Montreal-based global equity manager, suffered disappointing investment performance and saw performance-related net outflows of \$6.2 billion in fiscal 2020, reducing their assets under management to \$5.8 billion as of October 31, 2020. Reflecting Hexavest's value-investing style, preservation of capital focus and defensive positioning in a narrow, growth-driven and rising market, performance over recent periods has lagged applicable market benchmarks and most peer managers. During the fiscal year, the Company recognized impairment losses of \$122.2 million on our investment in Hexavest, reducing the carrying value of our position to \$11.4 million.

Turning to our fiscal 2020 results, Eaton Vance earned \$1.20 per diluted share in the fiscal year ended October 31, 2020, which compares to earnings of \$3.50 per diluted share in the fiscal year ended October 31, 2019. On an adjusted basis,<sup>1</sup> Eaton Vance earned \$3.29 per diluted share in fiscal 2020, a decrease of one percent from \$3.32 of adjusted earnings per diluted share in fiscal 2019.

In fiscal 2020, our adjusted earnings exceeded earnings under U.S. generally accepted accounting principles (U.S. GAAP) principally to reflect the reversal of \$108.6 million of accelerated stock-based compensation expense and \$6.3 million of other costs recognized in connection with the proposed acquisition of Eaton Vance by Morgan Stanley, the reversal of \$122.2 million of impairment losses recognized during the fiscal year on the Company's investment in Hexavest, the reversal of \$9.0 million of net excess tax benefits related to stock-based compensation awards, the add-back of \$7.6 million of management fees and expenses of consolidated sponsored funds and consolidated collateralized loan obligation entities (collectively, consolidated investment entities), and the add-back of \$6.6 million of net losses of consolidated investment entities and the Company's other seed capital investments.

In fiscal 2020, the Company's consolidated revenue increased three percent to \$1.73 billion from \$1.68 billion in fiscal 2019. Excluding expenses in connection with the proposed acquisition of Eaton Vance by Morgan Stanley and other adjustments from U.S. GAAP, the Company's operating expenses increased three percent to \$1.20 billion in fiscal 2020 from \$1.16 billion in fiscal 2019. On the same adjusted basis, operating income increased one percent to \$538.9 million from \$531.8 million in fiscal 2019.

Reflecting the approximately 49 percent premium to market price represented by the proposed Morgan Stanley transaction consideration upon announcement on October 8, 2020, holders of Eaton Vance Non-Voting Common Stock realized a total return of 35.7 percent in the twelve months ended October 31, 2020. For comparison, the common stocks of our peer group of 13 competing mid-cap and large-cap U.S. publicly traded asset managers<sup>2</sup> returned an average of 8.5 percent and the S&P 500 Index, a benchmark of large-cap U.S. stocks, returned 9.7 percent over the same period. As measured at fiscal year-end, the annual total return of Eaton Vance Non-Voting Common Stock also outperformed the average of peer asset manager common stocks over three years (+9.1 percent vs. -0.9 percent), five years (+14.0 percent vs. +1.2 percent) and ten years (+10.9 percent vs. +5.7 percent).

Responding to the threat to public health from the COVID-19 pandemic, Eaton Vance has been operating in accordance with our business continuity plans since the middle of March. Over 95 percent of Eaton Vance employees are currently working remotely, with only a small number of employees in the office each business day. Employees have adapted well to the remote work environment, with minimal disruption to day-to-day operations and high levels of client service being maintained. Eaton Vance is deeply committed to the health and safety of our employees and their families, and does not anticipate a broad return to office until the pandemic significantly abates. Given the advances in vaccine availability expected over the coming months, we are hopeful that our employees will be able to safely return to the office at some point in fiscal 2021.

Quite remarkably, the entire due diligence and negotiation process for the proposed acquisition of Eaton Vance by Morgan Stanley was conducted remotely, with no in-person meetings at any point.

During fiscal 2020, two longtime leaders of Eaton Vance announced their intention to retire: Payson Swaffield, Chief Income Investment Officer of EVM, effective just after fiscal year-end, and Laurie Hylton, Chief Financial Officer of Eaton Vance, effective upon the close of the Morgan Stanley transaction. Over their respective 30 and 26-year careers with the Company, Payson and Laurie have each contributed immeasurably to the growth and success of Eaton Vance. As EVM's Chief Income Investment Officer since 2007 and previously as co-head of EVM's floating-rate loan group beginning in 1996, Payson has distinguished himself as a diligent and astute investor and an able leader of investment teams. On Payson's watch, EVM developed market-leading franchises in floating-rate loans, high-yield bonds, emerging market debt, mortgage-backed securities and municipal bonds. Payson has also played a key role in the development of the Calvert responsibly managed fixed income business. Laurie joined Eaton Vance as Internal Auditor in 1994, advancing to become Chief Accounting Officer in 1997 and Chief Financial Officer in 2012. As Chief Financial Officer, Laurie has effectively overseen all aspects of the Company's finance and accounting functions, and has been instrumental in the development and implementation of Eaton Vance's overall business strategy, including mergers and acquisitions and oversight of our affiliates. Together with Chief Legal Officer Fred Marius, Laurie played a starring role in the merger process culminating in the proposed acquisition of Eaton Vance by Morgan Stanley. In the long history of Eaton Vance, few stand out as bigger contributors than Payson and Laurie.

While not on the same scale as the proposed Morgan Stanley transaction, another transformative business combination entered into in fiscal 2020 was the October acquisition of WaterOak by Eaton Vance Investment Counsel, our wealth management business. Post-transaction, Eaton Vance Investment Counsel, whose history dates back to the 1924 founding of our predecessor Eaton & Howard, has been rebranded as Eaton Vance WaterOak Advisors (Eaton Vance WaterOak). Drawing on the resources and capabilities of Eaton Vance's investment affiliates, Eaton Vance WaterOak specializes in providing high-net-worth families and institutions with access to a distinctive array of sophisticated wealth management and investment solutions – including financial, estate and tax planning, investment management and family office and trust services. Operating from Boston, New York and Florida, Eaton Vance WaterOak had \$9.8 billion of client assets under management as of October 31, 2020.





Looking back on the many challenges confronting our employees in 2020 – the risks to personal health and safety presented by the COVID-19 pandemic, the pandemic-related disruptions to work and family life, the painful issues of racism and social injustice raised by incidents of police brutality targeting Black people, the divisive and unsettled American election cycle, the uncertainties presented by the pending acquisition of Eaton Vance by Morgan Stanley – I congratulate and thank you for a job well done.

Understanding that the anticipated completion of Morgan Stanley's acquisition of Eaton Vance will conclude the Company's long history of independence, I want to close by acknowledging what a privilege it has been for me to spend the last 35 years as an Eaton Vance employee and to lead the Company as Chairman and Chief Executive Officer over the past 13 years. One measure of the special qualities of this remarkable organization is the chart we include in each year's annual report (see page 14) showing how Eaton Vance Non-Voting Common Stock has ranked as one of the top-performing U.S. stocks over the period since our two predecessor companies merged to form today's Eaton Vance on April 30, 1979 – and also the accompanying chart showing that \$1,000 invested in our stock on that day had, with distributions reinvested, grown to a value of \$4,513,472 as of October 31, 2020, a cumulative return of over 450,000 percent. Other measures of the Company's leadership and progress are found in the timeline of Eaton Vance recognitions and achievements shown on pages 12-13 of this report.

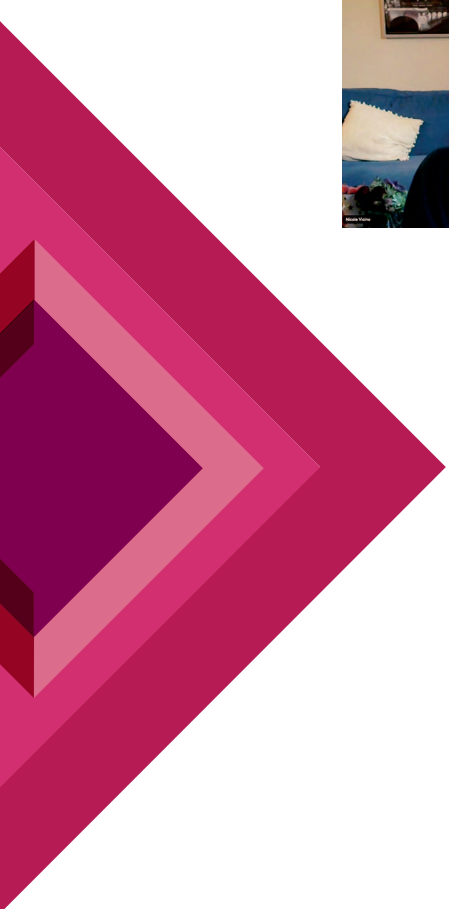
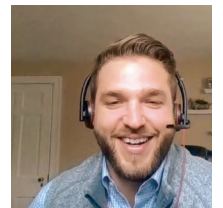
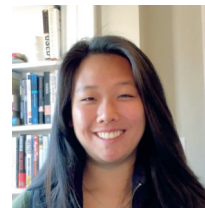
The best measure of Eaton Vance's historical success – and the root cause of that success – is the great team of people we have assembled to lead and drive our business going forward. The hard work and dedication of the 1,983 Eaton Vance employees whose names are listed on the back of this report account for what we have achieved in the past, and the bright future ahead of us as part of Morgan Stanley. In my future role as Chairman of Morgan Stanley Investment Management, I look forward to working with colleagues old and new to create the world's premier asset manager.

Sincerely,

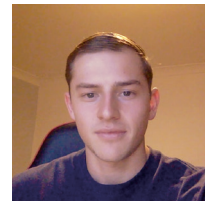
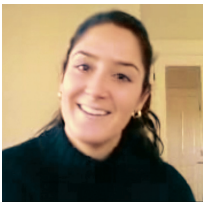
Thomas E. Faust Jr.  
Chairman and Chief Executive Officer

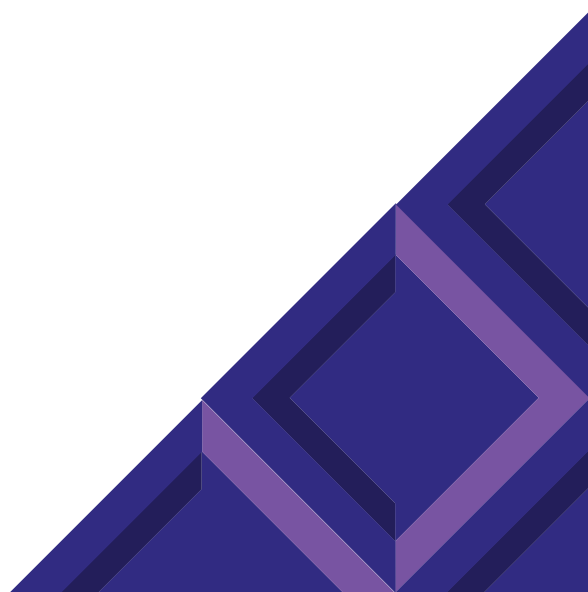
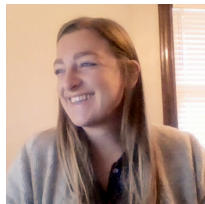
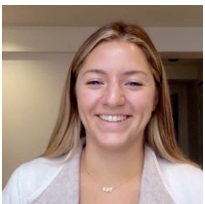
<sup>1</sup>Although the Company reports its financial results in accordance with U.S. GAAP, management believes that certain non-U.S. GAAP financial measures, specifically, adjusted operating income, adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share, while not a substitute for U.S. GAAP financial measures, may be effective indicators of the Company's performance over time. Non-U.S. GAAP financial measures should not be construed to be superior to U.S. GAAP measures. In calculating these non-U.S. GAAP financial measures, operating income, net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share are adjusted to exclude items management deems non-operating or non-recurring in nature, or otherwise outside the ordinary course of business. These adjustments may include, when applicable, the add back of closed-end fund structuring fees, costs associated with special dividends, debt repayments and tax settlements, the tax impact of stock-based compensation shortfalls or windfalls, impairment charges, costs in connection with the proposed acquisition of Eaton Vance by Morgan Stanley and other acquisition-related items, and non-recurring charges for the effect of tax law changes. Adjustments to operating income also include the add-back of management fee revenue received from consolidated sponsored funds and consolidated collateralized loan obligation entities (collectively, consolidated investment entities) that are eliminated in consolidation and the non-management expenses of consolidated sponsored funds recognized in consolidation. Adjustments to net income attributable to Eaton Vance Corp. shareholders include the after-tax impact of these adjustments to operating income and the elimination of gains (losses) and other investment income (expense) of consolidated investment entities and other seed capital investments included in non-operating income (expense), as determined net of tax and non-controlling and other beneficial interests. Management and our Board of Directors, as well as certain of our outside investors, consider these adjusted numbers a measure of the Company's underlying operating performance. Management believes adjusted operating income, adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share are important indicators of our operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results, and may provide a useful baseline for analyzing trends in our underlying business.

<sup>2</sup>Peer group consists of Affiliated Managers Group, AllianceBernstein Holding, Artisan Partners Asset Management, BlackRock, Brightsphere Investment Group, Cohen & Steers, Federated Hermes, Franklin Resources, GAMCO Investors, Invesco, T. Rowe Price, Virtus Investment Partners and Waddell & Reed Financial.









## A history of innovation and excellence

1924

Eaton & Howard formed as an investment counsel business; predecessor to Vance, Sanders & Co. creates the first mutual fund, Massachusetts Investors Trust

1940

Charles Eaton helps craft the Investment Company Act of 1940

1982

Calvert launches first mutual fund to integrate ESG factors with financial analysis and to oppose apartheid

1933

Natalie Bolton joins Eaton & Howard as a public utility analyst; later becomes first woman admitted to the Boston Society of Security Analysts

1959

Vance, Sanders & Co. lists its shares and becomes a publicly traded company

1983

Atlanta Capital publishes seminal research on high-quality investing in Journal of Portfolio Management

1937

Eaton & Howard moves to 24 Federal Street, Boston: the building's iconic doors inspire the Company's longtime logo

1978

Eaton Vance launches one of the first tax-free municipal bond mutual funds

1989

Eaton Vance Prime Rate Reserves launches as first continuously offered, spread-load floating-rate loan fund

1979

Eaton Vance formed through merger of Eaton & Howard and Vance, Sanders & Co.





## 1992

Parametric begins managing its first custom indexing account with active tax-loss harvesting

## 1999

Boston Globe names Eaton Vance as Massachusetts Company of the Year

## 2016

Eaton Vance acquires predecessor to Calvert; positions Calvert as centerpiece of the firm's responsible investing and engagement strategy

## 1996

Eaton Vance Tax-Managed Growth Fund inaugurates Eaton Vance "mutual funds for people who pay taxes"

## 2007

Eaton Vance Tax-Managed Global Diversified Equity Income Fund raises \$6 billion IPO; remains most successful closed-end fund offering in U.S. history

## 2019

Eaton Vance named Asset Manager of the Year in the large-company category by the Money Management Institute

## 1997

Eaton Vance selected as Best Mutual Fund Family in Barron's/ Lipper annual performance rankings

## 2011

Tax-Advantaged Bond Strategies group begins offering municipal bond ladder individual separate accounts

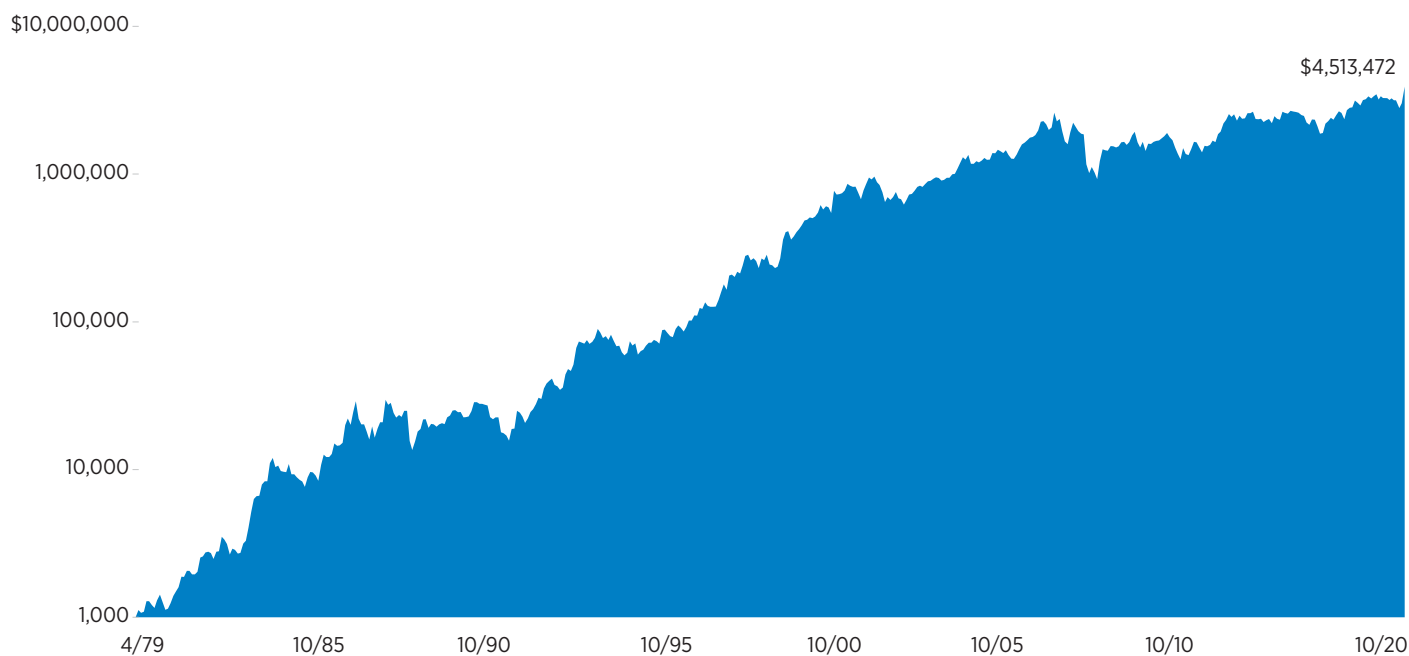


## Historical Stock Returns

Eaton Vance Corp. was formed by the merger on April 30, 1979 of two Boston-based investment managers: Eaton & Howard, Inc., founded in 1924, and Vance, Sanders & Company, organized in 1934.

[Eaton Vance Corp.](#)

Value of \$1,000 invested April 30, 1979



Assumes reinvestment of all dividends and proceeds of 1995 spinoff of Investors Financial Services Corp.

Sources: Bloomberg, Eaton Vance.

## Best-Performing Publicly Traded U.S. Stocks

April 30, 1979 to October 31, 2020

| Rank | Company                           | Annual Return |
|------|-----------------------------------|---------------|
| 1    | Helen of Troy Limited             | 22.5%         |
| 2    | <a href="#">Eaton Vance Corp.</a> | 22.5          |
| 3    | Progressive Corporation           | 22.1          |
| 4    | Kansas City Southern              | 21.5          |
| 5    | TJX Companies Inc.                | 20.8          |
|      | <a href="#">S&amp;P 500 Index</a> | 11.7          |

Total return with dividends reinvested. Source: FactSet/Compustat.

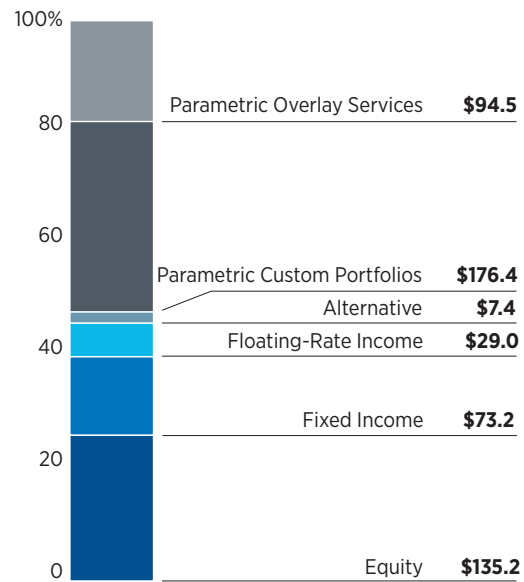




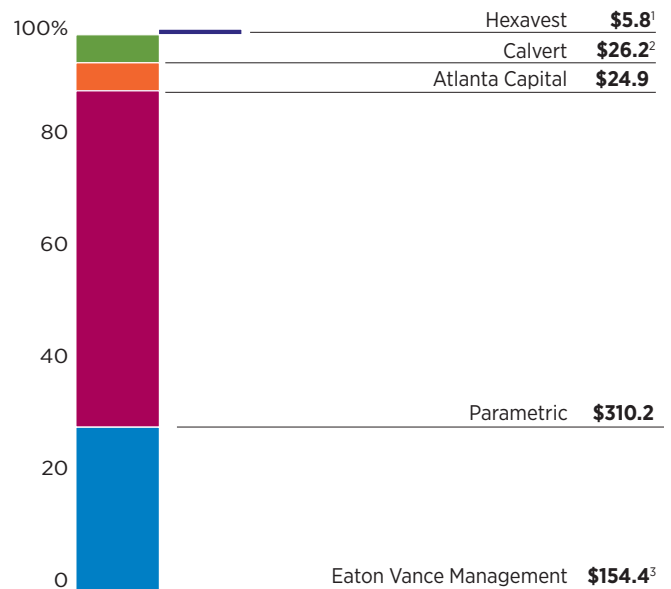
# Assets under Management as of October 31, 2020

Consolidated Total: \$515.7 billion

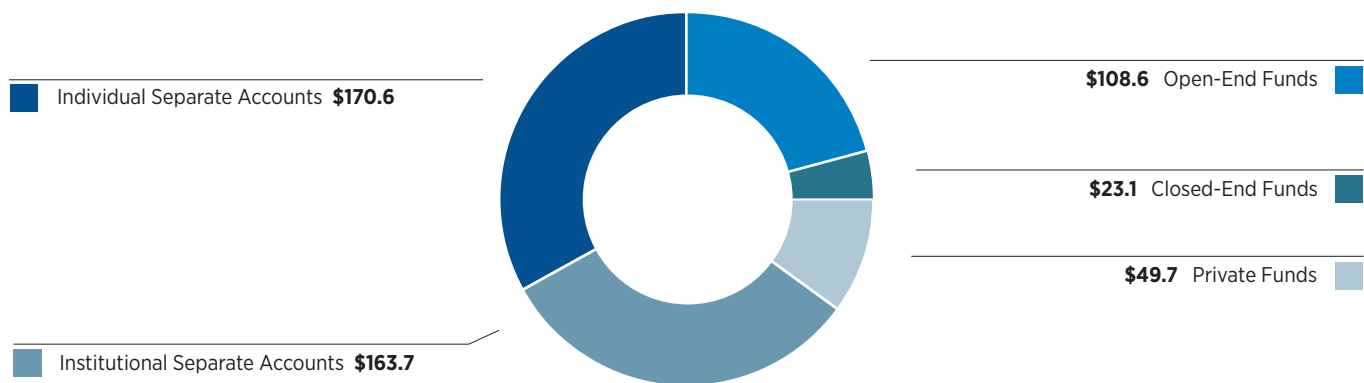
by Investment Mandate (in billions)



by Investment Affiliate (in billions)



by Investment Vehicle (in billions)



<sup>1</sup>Eaton Vance holds a 49 percent interest in Hexavest Inc. Other than Eaton Vance-sponsored funds for which Hexavest is adviser or sub-adviser, the managed assets of Hexavest are not included in our consolidated totals.

<sup>2</sup>Includes managed assets of Calvert Equity Fund, which is sub-advised by Atlanta Capital, and Calvert-sponsored funds managed by unaffiliated third-party advisers under Calvert supervision.

<sup>3</sup>Includes managed assets of Eaton Vance WaterOak Advisors, Eaton Vance Trust Company and Boston Management and Research. Also includes managed assets of Eaton Vance-sponsored funds and separate accounts managed by Hexavest and unaffiliated third-party advisers under Eaton Vance supervision.

## Eaton Vance Investment Affiliates

Eaton Vance provides advanced investment strategies and wealth management solutions to forward-thinking investors around the world.

Through our five primary investment affiliates, we offer a diversity of investment approaches encompassing bottom-up and top-down fundamental active management, responsible investing, systematic investing and customized implementation of client-specified portfolio exposures.

**The following third-party organizations provide investment management services as sub-advisers to certain Eaton Vance and Calvert-sponsored mutual funds and portfolios:**

### Eaton Vance Funds

BMO Global Asset Management (Asia) Ltd.  
Goldman Sachs Asset Management, L.P.  
Richard Bernstein Advisors LLC

### Calvert Funds

Ameritas Investment Partners, Inc.  
Federated Hermes, Inc.  
Milliman Financial Risk Management LLC



### Fundamental active managers

History dating to 1924 | AUM: \$154.4 billion<sup>1</sup>

#### Equity

Dividend/Global Dividend  
Emerging/Frontier Markets  
Equity Harvest  
Equity Option  
Global Developed  
Global ex U.S.  
Global ex U.S. Small-Cap  
Global Small-Cap  
Health Care  
Large-Cap Core  
Large-Cap Growth  
Large-Cap Value  
Multi-Cap Growth  
Real Estate  
Small-Cap  
Small/Mid-Cap  
Tax-Managed

#### Alternative

Global Macro  
Hedged Equity

#### Multi-Asset

Asset Allocation  
Balanced  
Global Diversified Income

#### Floating-Rate Income

Collateralized Loan Obligations  
Floating-Rate Loan

#### Taxable Fixed Income

Cash Management  
Core Bond/Core Plus  
Emerging-Markets Debt  
Global Bond  
High-Yield Corporate  
Inflation-Linked  
Investment-Grade Corporate  
Mortgage-Backed Securities  
Multi-Asset Credit  
Preferred Securities  
Short Duration  
Taxable Municipal

#### Tax-Exempt Fixed Income

Floating-Rate Municipal  
High Yield Municipal  
National Municipal  
Opportunistic Municipal  
State-Specific Municipal

Eaton Vance and affiliates as of 10/31/2020.

<sup>1</sup>Includes managed assets of Eaton Vance WaterOak Advisors, Eaton Vance Trust Company and Boston Management and Research. Also includes managed assets of Eaton Vance-sponsored funds and separate accounts managed by Hexavest and unaffiliated third-party advisers under Eaton Vance supervision.



### Investment science in action

Founded in 1987 | AUM: \$310.2 billion

#### Equity

Dividend  
Emerging Markets  
Global  
Global ex U.S.  
Responsible  
Tax-Managed  
U.S.

#### Options-Based

Absolute Return  
Covered Call Writing  
Defensive Equity  
Dynamic Hedged Equity  
Put Selling

#### Overlay Services

Policy Overlay Services

#### Alternative

Commodity

#### Income

Enhanced Income  
Managed Municipal  
Tax-Advantaged Bond

#### Custom Portfolios

Centralized Portfolio Management  
Custom Core® Equity  
Custom Core® Fixed Income  
Laddered Corporate Bonds  
Laddered Municipal Bonds  
Multi-Asset Solutions



### Global leader in Responsible Investing

History dating to 1976 | AUM: \$26.2 billion<sup>2</sup>

#### Active Equity

Emerging Markets  
Global ex U.S.  
Global ex U.S. Small/Mid-Cap  
Large-Cap  
Mid-Cap  
Small-Cap

#### Equity Index

Global Energy  
Global ex U.S.  
Global Water  
U.S. Large-Cap Core  
U.S. Large-Cap Growth  
U.S. Large-Cap Value  
U.S. Mid-Cap Core

#### Multi-Asset

Asset Allocation  
Balanced

#### Floating-Rate Income

Floating-Rate Loan

#### Tax-Exempt Income

Municipal

#### Taxable Fixed Income

Core/Core Plus  
Flexible Income  
Green Bond  
High Yield  
Short Duration/Ultra-Short

## HEXAVEST

### Top-down global equity managers

Founded in 2004 | AUM: \$5.8 billion<sup>3</sup>

#### Equity

Emerging Markets  
Global-All Country  
Global-Developed  
Global ex U.S.



### Specialists in high-quality investing

Founded in 1969 | AUM: \$25.0 billion

#### Equity

Large-Cap Growth  
Mid/Large-Cap Core  
Small-Cap Core  
SMID-Cap Core

#### Taxable Fixed Income

Core Bond  
Intermediate Duration  
Short Duration  
Short Duration Securitized

<sup>2</sup>Includes managed assets of Calvert Equity Fund, which is sub-advised by Atlanta Capital, and Calvert-sponsored funds managed by unaffiliated third-party advisers under Calvert supervision.

<sup>3</sup>Eaton Vance holds a 49 percent interest in Hexavest Inc. Other than Eaton Vance-sponsored funds for which Hexavest is adviser or sub-adviser, the managed assets of Hexavest are not included in our consolidated totals.

## Key Statistics

| <b>Fiscal Year Ended October 31,</b><br><b>(in \$ millions, except per share and employee amounts)</b> | <b>2020</b>  | <b>2019</b>  | <b>% Change</b> |
|--|--------------|--------------|-----------------|
| Ending assets under management   | 515,737      | 497,432      | 4%              |
| Average assets under management  | 497,842      | 462,843      | 8%              |
| Gross inflows  | 204,085      | 168,861      | 21%             |
| Net inflows  | 4,738        | 23,923       | -80%            |
| Revenue  | 1,730        | 1,683        | 3%              |
| Operating income   | 374          | 521          | -28%            |
| <i>Operating income margin</i>   | <i>21.6%</i> | <i>30.9%</i> | <i>-30%</i>     |
| Adjusted operating income <sup>1</sup>   | 539          | 532          | 1%              |
| <i>Adjusted operating income margin<sup>1</sup></i>  | <i>31.0%</i> | <i>31.5%</i> | <i>-2%</i>      |
| Net income attributable to Eaton Vance Corp. shareholders  | 139          | 400          | -65%            |
| Adjusted net income attributable to Eaton Vance Corp. shareholders <sup>1</sup>                        | 381          | 380          | 0%              |
| Earnings per diluted share   | 1.20         | 3.50         | -66%            |
| Adjusted earnings per diluted share <sup>1</sup>   | 3.29         | 3.32         | -1%             |
| Dividends declared per share   | 1.500        | 1.425        | 5%              |
| Cash and cash equivalents  | 799          | 558          | 43%             |
| Debt   | 621          | 621          | 0%              |
| Employees  | 1,983        | 1,871        | 6%              |
| Market capitalization  | 6,828        | 5,159        | 32%             |

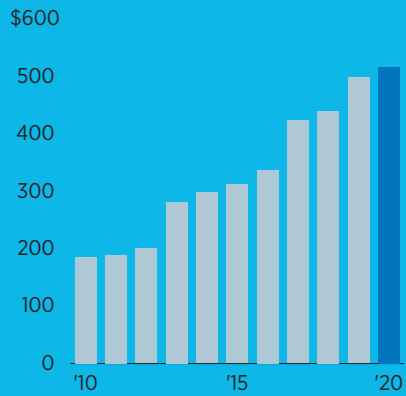
Eaton Vance Corp. consolidated totals.

<sup>1</sup>Although the Company reports its financial results in accordance with U.S. generally accepted accounting principles (U.S. GAAP), management believes that certain non-U.S. GAAP financial measures, specifically, adjusted operating income, adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share, while not a substitute for U.S. GAAP financial measures, may be effective indicators of our performance over time. Non-U.S. GAAP financial measures should not be construed to be superior to U.S. GAAP measures. In calculating these non-U.S. GAAP financial measures, operating income, net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share are adjusted to exclude items management deems non-operating or non-recurring in nature, or otherwise outside the ordinary course of business. These adjustments may include, when applicable, the add back of closed-end fund structuring fees, costs associated with special dividends, debt repayments and tax settlements, the tax impact of stock-based compensation shortfalls or windfalls, impairment charges, costs in connection with the proposed acquisition of Eaton Vance by Morgan Stanley and other acquisition-related items, and non-recurring charges for the effect of tax law changes. Adjustments to operating income also include the add-back of management fee revenue received from consolidated sponsored funds and consolidated collateralized loan obligation (CLO) entities (collectively, consolidated investment entities) that are eliminated in consolidation and the non-management expenses of consolidated sponsored funds recognized in consolidation. Adjustments to net income attributable to Eaton Vance Corp. shareholders include the after-tax impact of these adjustments to operating income and the elimination of gains (losses) and other investment income (expense) of consolidated investment entities and other seed capital investments included in non-operating income (expense), as determined net of tax and non-controlling and other beneficial interests. Management and our Board of Directors, as well as certain of our outside investors, consider these adjusted numbers a measure of our underlying operating performance. Management believes adjusted operating income, adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share are important indicators of our operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results, and may provide a useful baseline for analyzing trends in our underlying business. Our use of these adjusted numbers, including reconciliations of operating income to adjusted operating income, net income attributable to Eaton Vance Corp. shareholders to adjusted net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share to adjusted earnings per diluted share, is discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included within this Annual Report.

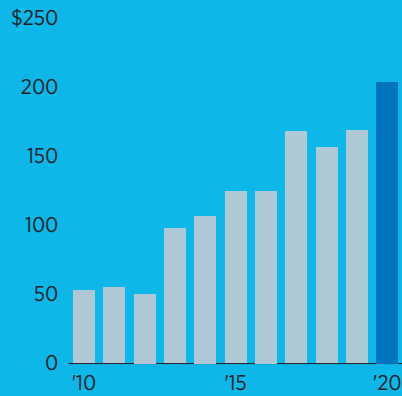


# Performance Trends

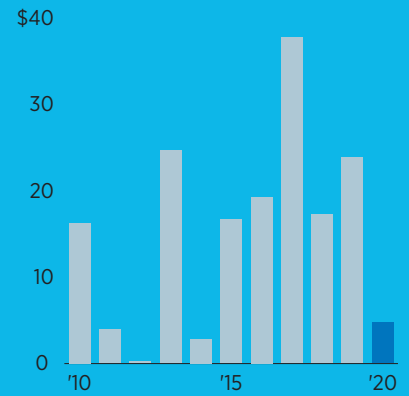
**Assets under Management (in billions)**



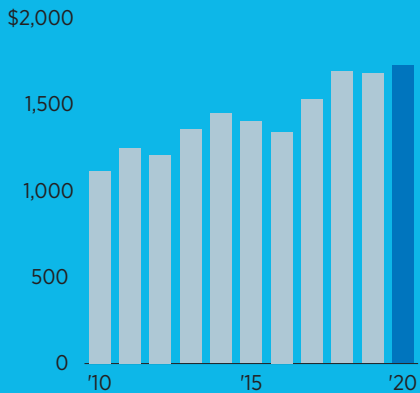
**Gross Inflows (in billions)**



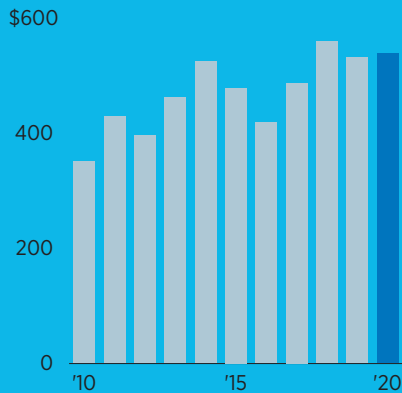
**Net Inflows (in billions)**



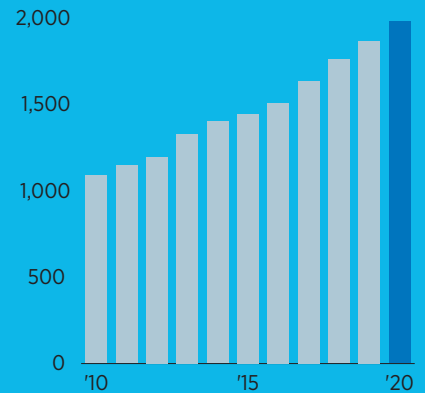
**Revenue (in millions)**



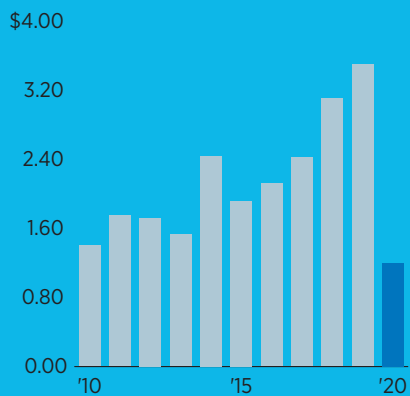
**Adjusted Operating Income (in millions)<sup>1</sup>**



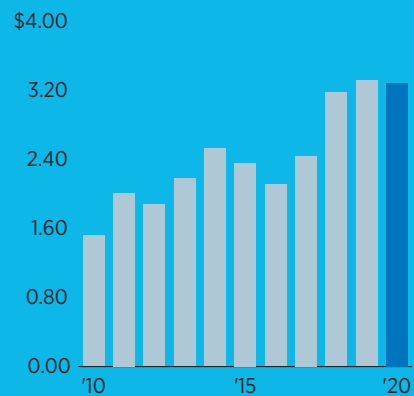
**Employees**



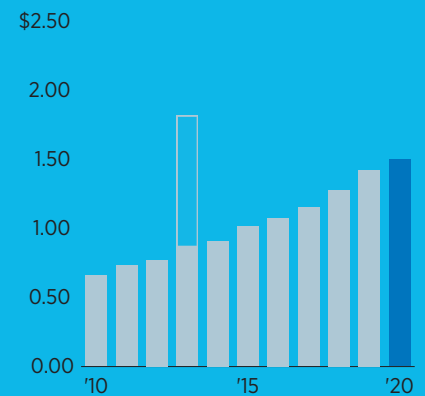
**Earnings per Diluted Share**



**Adjusted Earnings per Diluted Share<sup>1</sup>**



**Dividends per Share<sup>2</sup>**



Eaton Vance Corp. consolidated totals.

<sup>1</sup>See footnote 1 on previous page.

<sup>2</sup>Includes \$1.00 special dividend declared and paid in December 2012.

## Financial Review

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## Five-Year Financial Summary

The following table contains selected financial data for the last five years. This data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and Notes to Consolidated Financial Statements included within this Annual Report.

### Financial Highlights

| <i>(in thousands, except per share data)</i>  | For the Years Ended October 31, |              |              |              |              |
|---|---------------------------------|--------------|--------------|--------------|--------------|
|   | 2020                            | 2019         | 2018         | 2017         | 2016         |
| <b>Income Statement Data:</b>   |                                 |              |              |              |              |
| Total revenue <sup>(1)</sup>  | \$ 1,730,365                    | \$ 1,683,252 | \$ 1,692,422 | \$ 1,532,111 | \$ 1,337,067 |
| Operating Income  | 374,240                         | 520,871      | 555,202      | 482,758      | 414,268      |
| Adjusted operating income <sup>(2)</sup>  | 538,879                         | 531,767      | 559,967      | 488,352      | 418,032      |
| Net income  | 133,334                         | 432,876      | 397,905      | 306,373      | 264,757      |
| Net (income) loss attributable to non-controlling and other beneficial interests <sup>(3)</sup> | 5,182                           | (32,841)     | (15,967)     | (24,242)     | (23,450)     |
| Net income attributable to Eaton Vance Corp. shareholders                                       | 138,516                         | 400,035      | 381,938      | 282,131      | 241,307      |
| Adjusted net income attributable to Eaton Vance Corp. shareholders <sup>(2)</sup>               | 380,904                         | 379,845      | 391,372      | 284,018      | 240,021      |
| <b>Balance Sheet Data:</b>  |                                 |              |              |              |              |
| Total assets <sup>(4)(5)</sup>  | \$ 4,949,298                    | \$ 4,253,629 | \$ 3,599,328 | \$ 2,330,901 | \$ 1,730,382 |
| Debt <sup>(5)(6)</sup>  | 621,348                         | 620,513      | 619,678      | 618,843      | 571,773      |
| Redeemable non-controlling interests (temporary equity)   | 222,854                         | 285,915      | 335,097      | 250,823      | 109,028      |
| Total Eaton Vance Corp. shareholders' equity  | 1,323,685                       | 1,184,119    | 1,107,431    | 1,011,396    | 703,789      |
| Non-redeemable non-controlling interests  | -                               | -            | 1,000        | 864          | 786          |
| Total permanent equity  | 1,323,685                       | 1,184,119    | 1,108,431    | 1,012,260    | 704,575      |
| <b>Per Share Data:</b>  |                                 |              |              |              |              |
| Earnings per share:   |                                 |              |              |              |              |
| Basic   | \$ 1.26                         | \$ 3.63      | \$ 3.33      | \$ 2.54      | \$ 2.20      |
| Diluted   | 1.20                            | 3.50         | 3.11         | 2.42         | 2.12         |
| Adjusted diluted <sup>(3)</sup>   | 3.29                            | 3.32         | 3.18         | 2.44         | 2.11         |
| Cash dividends declared   | 1.500                           | 1.425        | 1.280        | 1.150        | 1.075        |

- <sup>(1)</sup> Prior year revenue amounts have been restated to reflect the Company's full retrospective adoption of Accounting Standard Update (ASU) 2014-09 on November 1, 2018.
- <sup>(2)</sup> Although the Company reports its financial results in accordance with U.S. generally accepted accounting principles (U.S. GAAP), management believes that certain non-U.S. GAAP financial measures, specifically, adjusted operating income, adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share, while not a substitute for U.S. GAAP financial measures, may be effective indicators of our performance over time. Non-U.S. GAAP financial measures should not be construed to be superior to U.S. GAAP measures. In calculating these non-U.S. GAAP financial measures, operating income, net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share are adjusted to exclude items management deems non-operating or non-recurring in nature, or otherwise outside the ordinary course of business. These adjustments may include, when applicable, the add back of closed-end fund structuring fees, costs associated with debt repayments and tax settlements, the tax impact of stock-based compensation shortfalls or windfalls, impairment charges, costs in connection with the proposed acquisition of Eaton Vance by Morgan Stanley and other acquisition-related items, and non-recurring charges for the effect of tax law changes. Adjustments to operating income also include the add-back of management fee revenue received from consolidated sponsored funds and consolidated collateralized loan obligation (CLO) entities (collectively, consolidated investment entities) that are eliminated in consolidation and the non-management expenses of consolidated sponsored funds recognized in consolidation. Adjustments to net income attributable to Eaton Vance Corp. shareholders include the after-tax impact of these adjustments to operating income and the elimination of gains (losses) and other investment income (expense) of consolidated investment entities and other seed capital investments included in non-operating income (expense), as determined net of tax and non-controlling and other beneficial interests. Management and our Board of Directors, as well as certain of our outside investors, consider these adjusted numbers a measure of our underlying operating performance. Management believes adjusted operating income, adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share are important indicators of our operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results, and may provide a useful baseline for analyzing trends in our underlying business. Our use of these adjusted numbers, including reconciliations of operating income to adjusted operating income, net income attributable to Eaton Vance Corp. shareholders to adjusted net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share to adjusted earnings per diluted share, is discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included within this Annual Report.
- <sup>(3)</sup> Net income attributable to non-controlling and other beneficial interests reflects an increase of \$0.5 million and \$0.2 million in the estimated redemption value of non-controlling interests in our affiliates redeemable at other than fair value in fiscal 2017 and 2016, respectively. There were no holders of non-controlling interests in our affiliates redeemable at other than fair value in fiscal 2020, 2019 or 2018. Net income attributable to non-controlling and other beneficial interests also includes net income of \$9.8 million in fiscal 2016 attributable to other beneficial interest holders of consolidated CLO entities. The net income of consolidated CLO entities in fiscal 2020, 2019, 2018 and 2017 was entirely attributable to the Company as a result of the Company's application of the measurement alternative to Accounting Standard Codification (ASC) 820 for collateralized financing entities.
- <sup>(4)</sup> Total assets on October 31, 2020, 2019, 2018 and 2017 include \$2.2 billion, \$1.8 billion, \$1.1 billion and \$31.3 million of assets held by consolidated CLO entities, respectively. The Company did not consolidate any CLO entities as of October 31, 2016.
- <sup>(5)</sup> In fiscal 2017, the Company adopted ASU 2015-03, which requires certain debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Total assets and debt were each reduced by \$2.2 million as of October 31, 2016 to reflect the reclassification of debt issuance costs from other assets to debt.
- <sup>(6)</sup> In fiscal 2017, the Company issued \$300 million of 3.5 percent Senior Notes due April 2027 and used the net proceeds from the issuance in part to retire the remaining \$250 million aggregate principal amount of its 6.5 percent Senior Notes due October 2017. The Company recognized a loss on extinguishment of debt totaling \$5.4 million in conjunction with the retirement in fiscal 2017.



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

### Overview

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

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

Through EVM, Atlanta Capital, Calvert and our other affiliates, we manage active equity, income, alternative and blended strategies across a range of investment styles and asset classes, including U.S., global and international equities, floating-rate bank loans, municipal bonds, global income, high-yield and investment grade bonds, and mortgage-backed securities. Through Parametric, we manage a range of systematic investment strategies, including systematic equity, systematic fixed income, systematic alternatives and managed options strategies. Through Parametric, we also provide portfolio overlay services and manage custom separate account portfolios, including Custom Core™ equity, Custom Core™ fixed income, laddered fixed income, multi-asset and multi-manager portfolios. We also oversee the management of, and distribute, investment funds sub-advised by unaffiliated third-party managers, including global, emerging market and regional equity and asset allocation strategies.

Our breadth of investment management capabilities supports a wide range of strategies and services offered to fund shareholders and separate account investors. Our equity strategies encompass a diversity of investment objectives, risk profiles, income levels and geographic representation. Our income investment strategies cover a broad duration, geographic representation and credit-quality range and encompass both taxable and tax-free investments. We also offer alternative investment strategies that include global macro absolute return and commodity-based investments. Although we manage and distribute a wide range of investment strategies and services, we operate in one business segment, namely as an investment adviser to funds and separate accounts. As of October 31, 2020, we had \$515.7 billion in consolidated assets under management.

We distribute our funds and individual separately managed accounts principally through financial intermediaries. We have broad market reach, with distribution partners including national and regional broker-dealers, independent broker-dealers, registered investment advisors, banks and insurance companies. We support these distribution partners with a team of approximately 160 sales professionals covering U.S. and international markets.

We employ approximately 30 sales professionals focused on serving institutional and high-net-worth clients who access investment management services on a direct basis and through investment consultants. Through our wholly- and majority-owned affiliates, we manage investments for a broad range of clients in the institutional and high-net-worth marketplace in the U.S. and internationally, including corporations, sovereign wealth funds, endowments, foundations, family offices and public and private employee retirement plans.

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

Our discussion and analysis of our financial condition, results of operations and cash flows is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to goodwill and intangible assets, temporary equity, income taxes, investments and stock-based compensation. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under current circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Our discussion and analysis of fiscal 2020 compared to fiscal 2019 is included herein. For discussion and analysis of fiscal 2019 compared to fiscal 2018, please refer to Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the fiscal year ended October 31, 2019, which was filed with the SEC on December 20, 2019.

### ***Proposed Acquisition of Eaton Vance by Morgan Stanley***

On October 8, 2020, Eaton Vance and Morgan Stanley announced that they had entered into a definitive agreement for Morgan Stanley to acquire Eaton Vance. Under the terms of the merger agreement, Eaton Vance shareholders will receive \$28.25 per share in cash and 0.5833 shares of Morgan Stanley Common Stock per share of Eaton Vance Common Stock held. The merger agreement contains an election procedure whereby each Eaton Vance shareholder may elect to receive the merger consideration all in cash or all in stock, subject to proration and adjustment.

The merger agreement also provided for Eaton Vance shareholders to receive a special cash dividend of \$4.25 per share of Eaton Vance Common Stock held. On November 23, 2020, the Eaton Vance Board of Directors declared the \$4.25 per share dividend, which was paid on December 18, 2020 to shareholders of record on December 4, 2020.

The proposed transaction is subject to customary closing conditions and expected to close in the second quarter of 2021.

## COVID-19 Pandemic

The ongoing COVID-19 pandemic has caused significant disruption in global financial markets and adversely affected our business. During the second quarter of fiscal 2020, we experienced a decline in our assets under management, revenue and earnings due to market price declines and net outflows driven by investor uncertainty related to the pandemic. While financial markets and our flow trends have since substantially recovered, the COVID-19 pandemic continues to significantly affect the manner in which we operate our business. Over 95 percent of our employees are currently working remotely, with only a small number in the office each business day. Employees have adapted well to the remote work environment, and we have not experienced any significant disruptions during the pandemic period due to operational issues, loss of communication capabilities, technology failure or cyber attacks. While the Company is continuously monitoring and evaluating the impact of COVID-19 on our business, the extent to which COVID-19 affects our business, results of operations and financial condition will depend on future developments that are highly uncertain. See Risk Factors within this Annual Report for information on the possible future effects of the COVID-19 pandemic on our results.

## Current Developments

We are currently pursuing five primary strategic priorities: (1) capitalizing on our leadership position in specialty strategies and services for high-net-worth investors; (2) defending our floating-rate bank loan franchise and growing our short-duration fixed income franchises; (3) expanding our leadership position in responsible investing; (4) increasing our global investment capabilities and non-U.S. distribution; and (5) positioning the Company for success in a changing industry environment.

We report equity, fixed income and multi-asset separate accounts managed by Parametric for which customization is a primary feature as Parametric custom portfolios. This investment mandate reporting category includes Parametric Custom Core equity and fixed income strategies, Parametric laddered municipal and corporate bond separate account strategies, Parametric centralized portfolio management and Parametric multi-asset solution mandates. Parametric's market-leading custom portfolio offerings combine the benefits of benchmark-based investing with the ability to customize portfolios to meet individual preferences and needs. In fiscal 2020, net inflows into Parametric custom portfolios totaled \$5.7 billion, generating internal growth in managed assets of 3 percent. We continue to expand Parametric's solution set and invest in technology to enhance client service and realize operating efficiencies and scale economies, further strengthening Parametric's leadership position in the growing market for customized individual separate accounts.

Demand for floating-rate loan strategies contracted in fiscal 2020 as U.S. retail investors responded negatively to the sharp drop in benchmark short-term interest rates and rising credit concerns amid the COVID-19 pandemic. Our floating-rate income category moved from net outflows of \$8.3 billion in fiscal 2019 to net outflows of \$5.0 billion in fiscal 2020. During the fiscal year, our market share among floating-rate loan mutual funds increased as the pace of industry net outflows exceeded our own. Net inflows into Eaton Vance and Calvert short-duration and limited-term fixed income mutual funds totaled \$3.8 billion in fiscal 2020, led by Eaton Vance Short-Duration Government Income Fund. Driven by strong sales, Eaton Vance Short-Duration Government Income Fund has grown to net assets of \$8.6 billion at October 31, 2020.

The Calvert Funds are one of the largest and most diversified families of responsibly invested mutual funds, encompassing actively and passively managed equity, fixed and floating-rate income, and multi-asset strategies managed in accordance with the Calvert Principles for Responsible Investment or other responsible investment criteria. Since Calvert became part of Eaton Vance in December 2016, we have experienced

significant growth in Calvert-branded investment strategies and further distinguished Calvert as a leader in environmental, social and governance (ESG) research and responsible engagement. Including the Atlanta Capital-subadvised Calvert Equity Fund, assets under management in Calvert strategies grew to \$26.2 billion at October 31, 2020 from \$19.8 billion at October 31, 2019, reflecting net inflows of \$4.5 billion and market price appreciation of \$1.9 billion. Calvert's \$4.5 billion of net inflows in fiscal 2020 equates to internal growth in managed assets of 23 percent.

While Calvert is the centerpiece of our responsible investment strategy, our commitment to responsible investing also encompasses our other investment affiliates. EVM and Atlanta Capital utilize Calvert's proprietary ESG research as a component of their fundamental research processes, and portfolio customization to reflect individual client's responsible investment criteria is a central feature of Parametric separate account offerings. As of October 31, 2020, Parametric managed \$25.5 billion of client assets based on client-specified responsible investment criteria. On an overall basis, Eaton Vance is one of the largest participants in responsible investing, a position we are committed to growing in conjunction with rising demand for investment strategies that incorporate ESG-integrated investment research and/or seek to achieve both favorable investment returns and positive societal impact.

Our non-U.S. business had net inflows of \$1.3 billion in fiscal 2020, led by EVM's emerging market local income, global high yield and multi-asset credit strategies. Gaining greater distribution access to non-U.S. markets was a key strategic rationale for the proposed acquisition of Eaton Vance by Morgan Stanley announced on October 8, 2020.

The proposed acquisition of Eaton Vance by Morgan Stanley culminates a multi-year effort by our board and senior leadership to better position the Company for long-term success amid a changing environment for the asset management industry. The combination of Eaton Vance and Morgan Stanley Investment Management brings together two growing, thriving asset management organizations with complementary strengths in investment management and distribution. As a key component of one of the world's largest asset and wealth management organizations, we will gain access to Morgan Stanley's resources to continue investing in our investment teams, distribution and client service capabilities, technology and operating platforms, and leading brands. Morgan Stanley's distribution reach will provide greatly expanded market opportunities for us both in the U.S. and internationally. Morgan Stanley's broad capabilities in private equity, private credit and private real estate investments and high-growth public equities will also create opportunities for our U.S. intermediary market sales teams to position these high-value strategies alongside our custom portfolios and other wealth management solutions to extend our leading position serving high-end financial advisors and their clients.

## **Performance**

As of October 31, 2020, 70 Calvert, Eaton Vance and Parametric-branded mutual funds offered in the U.S. were rated 4 or 5 stars by Morningstar™ for at least one class of shares, including 32 five star-rated funds. As measured by total return net of expenses at fiscal year-end, 18 percent of our U.S. mutual fund assets were in fund share classes whose performance ranked in the top quartile of their Morningstar peer groups over three years, 46 percent in the top quartile over five years and 55 percent in the top quartile over ten years. In the annual *Barron's*/Lipper rankings of Best Mutual Fund Families for calendar 2019, Calvert, Eaton Vance and Parametric collectively ranked 33<sup>rd</sup> overall among 55 fund families rated for one-year performance, 8<sup>th</sup> among 52 fund families based on five-year returns and 28<sup>th</sup> among 45 families for ten-year performance. A good source of performance-related information for our funds is their websites, available at [www.calvert.com](http://www.calvert.com) and [www.eatonvance.com](http://www.eatonvance.com). Information on these websites is not incorporated by reference into this Annual Report. On our funds' websites, investors can also obtain other current information about our funds, including

investment objective and principal investment policies, portfolio characteristics, expenses and Morningstar ratings.

### Consolidated Assets under Management

Prevailing equity and income market conditions and investor sentiment affect the sales and redemptions of our investment offerings, managed asset levels, operating results and the recoverability of our investments. During fiscal 2020, the S&P 500 Index, a broad measure of U.S. equity market performance, had total returns of 9.7 percent and the MSCI Emerging Market Index, a broad measure of emerging market equity performance, had total returns of 8.6 percent. Over the same period, the Barclays U.S. Aggregate Bond Index, a broad measure of U.S. bond market performance, had total returns of 6.2 percent.

Consolidated assets under management were \$515.7 billion on October 31, 2020, up 4 percent, from \$497.4 billion of consolidated assets under management on October 31, 2019. The year-over-year increase reflects annual net inflows of \$4.7 billion, market price appreciation of \$11.3 billion and \$2.3 billion of new managed assets gained in the acquisition of the business assets of WaterOak Advisors, LLC (WaterOak) on October 16, 2020. Average consolidated assets under management increased 8 percent to \$497.8 billion in fiscal 2020 from \$462.8 billion in fiscal 2019.

The following tables summarize our consolidated assets under management by investment mandate, investment vehicle and investment affiliate.

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

| (in millions)                               | October 31,       |             |                   |             |                   |             | 2020      | 2019       |
|---|-------------------|-------------|-------------------|-------------|-------------------|-------------|-----------|------------|
|   | 2020              | % of Total  | 2019              | % of Total  | 2018              | % of Total  | vs. 2019  | vs. 2018   |
| Equity <sup>(2)</sup>                       | \$ 135,174        | 26%         | \$ 131,895        | 27%         | \$ 115,772        | 26%         | 2%        | 14%        |
| Fixed income <sup>(3)</sup>                 | 73,271            | 14%         | 62,378            | 13%         | 54,339            | 12%         | 17%       | 15%        |
| Floating-rate income                        | 28,960            | 6%          | 35,103            | 7%          | 44,837            | 10%         | -17%      | -22%       |
| Alternative <sup>(4)</sup>                  | 7,424             | 1%          | 8,372             | 2%          | 12,139            | 3%          | -11%      | -31%       |
| Parametric custom portfolios <sup>(5)</sup> | 176,435           | 34%         | 164,895           | 32%         | 134,345           | 31%         | 7%        | 23%        |
| Parametric overlay services                 | 94,473            | 19%         | 94,789            | 19%         | 77,871            | 18%         | 0%        | 22%        |
| <b>Total</b>                                | <b>\$ 515,737</b> | <b>100%</b> | <b>\$ 497,432</b> | <b>100%</b> | <b>\$ 439,303</b> | <b>100%</b> | <b>4%</b> | <b>13%</b> |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See table on page 34 for directly managed assets and flows of 49 percent-owned Hexavest, which are not included in the table above.

<sup>(2)</sup> Includes balanced and other multi-asset mandates. Excludes equity mandates reported as Parametric custom portfolios.

<sup>(3)</sup> Includes cash management mandates. Excludes benchmark-based fixed income separate accounts reported as Parametric custom portfolios. Amounts for periods prior to fiscal 2020 have been revised to reflect the reclassification of benchmark-based fixed income separate accounts from fixed income to Parametric custom portfolios in the first quarter of fiscal 2020.

<sup>(4)</sup> Consists of absolute return and commodity mandates.

<sup>(5)</sup> Equity, fixed income and multi-asset separate accounts managed by Parametric for which customization is a primary feature; other Parametric strategies may also be customized. Amounts for periods prior to fiscal 2020 have been revised to reflect the reclassification of benchmark-based fixed income separate accounts from fixed income to Parametric custom portfolios in the first quarter of fiscal 2020.

Equity assets under management included \$48.5 billion, \$45.4 billion and \$40.7 billion of assets managed for after-tax returns on October 31, 2020, 2019 and 2018, respectively. Parametric custom portfolio assets under management included \$138.5 billion, \$124.1 billion and \$98.6 billion of assets managed for after-tax returns and/or tax-exempt income on October 31, 2020, 2019 and 2018, respectively. Fixed income assets included

\$29.9 billion, \$27.9 billion and \$25.4 billion of tax-exempt municipal income assets on October 31, 2020, 2019 and 2018, respectively.

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

| <i>(in millions)</i>            | October 31,       |             |                   |             |                   |             | 2020      | 2019       |
|---------------------------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|-----------|------------|
|                                 | 2020              | % of Total  | 2019              | % of Total  | 2018              | % of Total  | vs. 2019  | vs. 2018   |
| Open-end funds                  | \$ 108,576        | 21%         | \$ 105,043        | 21%         | \$ 102,426        | 24%         | 3%        | 3%         |
| Closed-end funds                | 23,098            | 4%          | 24,284            | 5%          | 23,998            | 5%          | -5%       | 1%         |
| Private funds <sup>(2)</sup>    | 49,746            | 10%         | 44,741            | 9%          | 38,544            | 9%          | 11%       | 16%        |
| Institutional separate accounts | 163,677           | 32%         | 173,331           | 35%         | 153,996           | 35%         | -6%       | 13%        |
| Individual separate accounts    | 170,640           | 33%         | 150,033           | 30%         | 120,339           | 27%         | 14%       | 25%        |
| <b>Total</b>                    | <b>\$ 515,737</b> | <b>100%</b> | <b>\$ 497,432</b> | <b>100%</b> | <b>\$ 439,303</b> | <b>100%</b> | <b>4%</b> | <b>13%</b> |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See table on page 34 for directly managed assets and flows of 49 percent-owned Hexavest, which are not included in the table above.

<sup>(2)</sup> Includes privately offered equity, fixed and floating-rate income, and alternative funds and CLO entities.

**Consolidated Assets under Management by Investment Affiliate<sup>(1)(2)</sup>**

| <i>(in millions)</i>                     | October 31,       |                   |                   | 2020      | 2019       |
|--|-------------------|-------------------|-------------------|-----------|------------|
|  | 2020              | 2019              | 2018              | vs. 2019  | vs. 2018   |
| Eaton Vance Management <sup>(3)(4)</sup> | \$ 154,394        | \$ 146,628        | \$ 146,276        | 5%        | 0%         |
| Parametric                               | 310,183           | 306,907           | 257,283           | 1%        | 19%        |
| Atlanta Capital                          | 24,963            | 24,100            | 21,057            | 4%        | 14%        |
| Calvert <sup>(5)</sup>                   | 26,197            | 19,797            | 14,687            | 32%       | 35%        |
| <b>Total</b>                             | <b>\$ 515,737</b> | <b>\$ 497,432</b> | <b>\$ 439,303</b> | <b>4%</b> | <b>13%</b> |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See table on page 34 for directly managed assets and flows of 49 percent-owned Hexavest, which are not included in the table above.

<sup>(2)</sup> The Company's policy for reporting managed assets of investment portfolios overseen by multiple Eaton Vance affiliates is to base classification on the strategy's primary identity.

<sup>(3)</sup> Includes managed assets of Eaton Vance-sponsored funds and separate accounts managed by Hexavest and unaffiliated third-party advisers under Eaton Vance supervision.

<sup>(4)</sup> Includes managed assets gained in the acquisition of the business assets of WaterOak on October 16, 2020.

<sup>(5)</sup> Includes managed assets of Calvert Equity Fund, which is sub-advised by Atlanta Capital, and Calvert-sponsored funds managed by unaffiliated third-party advisers under Calvert supervision.

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

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

| <i>(in millions)</i>                        | Years Ended October 31, |                   |                   | 2020        | 2019        |
|---|-------------------------|-------------------|-------------------|-------------|-------------|
|   | 2020                    | 2019              | 2018              | vs.<br>2019 | vs.<br>2018 |
| Equity <sup>(2)</sup>                       | \$ 131,496              | \$ 122,593        | \$ 119,147        | 7%          | 3%          |
| Fixed income <sup>(3)</sup>                 | 65,648                  | 58,634            | 53,885            | 12%         | 9%          |
| Floating-rate income                        | 30,708                  | 39,750            | 41,677            | -23%        | -5%         |
| Alternative <sup>(4)</sup>                  | 7,831                   | 9,651             | 13,129            | -19%        | -26%        |
| Parametric custom portfolios <sup>(5)</sup> | 169,423                 | 149,091           | 129,742           | 14%         | 15%         |
| Parametric overlay services                 | 92,736                  | 83,124            | 84,808            | 12%         | -2%         |
| <b>Total</b>                                | <b>\$ 497,842</b>       | <b>\$ 462,843</b> | <b>\$ 442,388</b> | <b>8%</b>   | <b>5%</b>   |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See table on page 34 for directly managed assets and flows of 49 percent-owned Hexavest, which are not included in the table above.

<sup>(2)</sup> Includes balanced and other multi-asset mandates. Excludes equity mandates reported as Parametric custom portfolios.

<sup>(3)</sup> Includes cash management mandates. Excludes benchmark-based fixed income separate accounts reported as Parametric custom portfolios. Amounts for periods prior to fiscal 2020 have been revised to reflect the reclassification of benchmark-based fixed income separate accounts from fixed income to Parametric custom portfolios in the first quarter of fiscal 2020.

<sup>(4)</sup> Consists of absolute return and commodity mandates.

<sup>(5)</sup> Equity, fixed income and multi-asset separate accounts managed by Parametric for which customization is a primary feature; other Parametric strategies may also be customized. Amounts for periods prior to fiscal 2020 have been revised to reflect the reclassification of benchmark-based fixed income separate accounts from fixed income to Parametric custom portfolios in the first quarter of fiscal 2020.

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

| <i>(in millions)</i>            | Years Ended October 31, |                   |                   | 2020        | 2019        |
|---------------------------------|-------------------------|-------------------|-------------------|-------------|-------------|
|                                 | 2020                    | 2019              | 2018              | vs.<br>2019 | vs.<br>2018 |
| Open-end funds                  | \$ 103,730              | \$ 102,804        | \$ 102,061        | 1%          | 1%          |
| Closed-end funds                | 23,345                  | 23,978            | 24,805            | -3%         | -3%         |
| Private funds <sup>(2)</sup>    | 46,600                  | 41,352            | 37,361            | 13%         | 11%         |
| Institutional separate accounts | 164,651                 | 160,044           | 162,374           | 3%          | -1%         |
| Individual separate accounts    | 159,516                 | 134,665           | 115,787           | 18%         | 16%         |
| <b>Total</b>                    | <b>\$ 497,842</b>       | <b>\$ 462,843</b> | <b>\$ 442,388</b> | <b>8%</b>   | <b>5%</b>   |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See table on page 34 for directly managed assets and flows of 49 percent-owned Hexavest, which are not included in the table above.

<sup>(2)</sup> Includes privately offered equity, fixed and floating-rate income, and alternative funds and CLO entities.

## Consolidated Net Flows

Fiscal 2020 marked our 25<sup>th</sup> consecutive year of positive net flows. Consolidated net inflows of \$4.7 billion in fiscal 2020 represent 1 percent internal growth in managed assets (consolidated net inflows divided by beginning of period consolidated assets under management). For comparison, we had consolidated net inflows of \$23.9 billion and \$17.3 billion in fiscal 2019 and 2018, respectively, representing internal growth in managed assets of 5 percent and 4 percent for those respective periods. Excluding Parametric overlay services, which have lower fees and more variable flows than the rest of our business, our internal growth in managed assets was 2 percent, 4 percent and 8 percent in fiscal 2020, 2019, and 2018, respectively.

Our internal management fee revenue growth (management fees attributable to consolidated inflows less management fees attributable to consolidated outflows, divided by beginning of period consolidated management fee revenue) was 2 percent, 0.1 percent and 4 percent in fiscal 2020, 2019 and 2018, respectively, as the management fee revenue contribution from new sales and other inflows exceeded the management fee revenue lost from redemptions and other outflows in each fiscal year.

The following tables summarize our consolidated assets under management and asset flows by investment mandate and investment vehicle:



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

| <i>(in millions)</i>   | Years Ended October 31, |                   |                   | 2020              | 2019        |
|--|-------------------------|-------------------|-------------------|-------------------|-------------|
|  | 2020                    | 2019              | 2018              | vs.<br>2019       | vs.<br>2018 |
| Equity assets - beginning of period <sup>(2)</sup>                       | \$ 131,895              | \$ 115,772        | \$ 113,472        | 14%               | 2%          |
| Sales and other inflows  | 28,613                  | 24,852            | 21,840            | 15%               | 14%         |
| Redemptions/outflows   | (30,748)                | (20,022)          | (20,813)          | 54%               | -4%         |
| Net flows  | (2,135)                 | 4,830             | 1,027             | NM <sup>(7)</sup> | 370%        |
| Assets acquired <sup>(3)</sup>   | 2,163                   | -                 | -                 | NM                | NM          |
| Exchanges  | (322)                   | (10)              | 37                | NM                | NM          |
| Market value change  | 3,573                   | 11,303            | 1,236             | -68%              | 814%        |
| <b>Equity assets - end of period</b>                                     | <b>\$ 135,174</b>       | <b>\$ 131,895</b> | <b>\$ 115,772</b> | <b>2%</b>         | <b>14%</b>  |
| Fixed income assets - beginning of period <sup>(4)</sup>                 | 62,378                  | 54,339            | 53,186            | 15%               | 2%          |
| Sales and other inflows  | 30,103                  | 22,353            | 17,013            | 35%               | 31%         |
| Redemptions/outflows   | (19,698)                | (17,006)          | (13,811)          | 16%               | 23%         |
| Net flows  | 10,405                  | 5,347             | 3,202             | 95%               | 67%         |
| Assets acquired <sup>(3)</sup>   | 104                     | -                 | -                 | NM                | NM          |
| Exchanges  | 265                     | 627               | -                 | -58%              | NM          |
| Market value change  | 119                     | 2,065             | (2,049)           | -94%              | NM          |
| <b>Fixed income assets - end of period</b>                               | <b>\$ 73,271</b>        | <b>\$ 62,378</b>  | <b>\$ 54,339</b>  | <b>17%</b>        | <b>15%</b>  |
| Floating-rate income assets - beginning of period                        | 35,103                  | 44,837            | 38,819            | -22%              | 16%         |
| Sales and other inflows  | 6,699                   | 8,706             | 14,301            | -23%              | -39%        |
| Redemptions/outflows   | (11,668)                | (16,988)          | (8,401)           | -31%              | 102%        |
| Net flows  | (4,969)                 | (8,282)           | 5,900             | -40%              | NM          |
| Exchanges  | (164)                   | (428)             | 86                | -62%              | NM          |
| Market value change  | (1,010)                 | (1,024)           | 32                | -1%               | NM          |
| <b>Floating-rate income assets - end of period</b>                       | <b>\$ 28,960</b>        | <b>\$ 35,103</b>  | <b>\$ 44,837</b>  | <b>-17%</b>       | <b>-22%</b> |
| Alternative assets - beginning of period <sup>(5)</sup>                  | 8,372                   | 12,139            | 12,637            | -31%              | -4%         |
| Sales and other inflows  | 2,218                   | 2,717             | 5,679             | -18%              | -52%        |
| Redemptions/outflows   | (2,957)                 | (6,618)           | (4,947)           | -55%              | 34%         |
| Net flows  | (739)                   | (3,901)           | 732               | -81%              | NM          |
| Exchanges  | (53)                    | (255)             | (103)             | -79%              | 148%        |
| Market value change  | (156)                   | 389               | (1,127)           | NM                | NM          |
| <b>Alternative assets - end of period</b>                                | <b>\$ 7,424</b>         | <b>\$ 8,372</b>   | <b>\$ 12,139</b>  | <b>-11%</b>       | <b>-31%</b> |
| Parametric custom portfolios assets - beginning of period <sup>(6)</sup> | 164,895                 | 134,345           | 117,226           | 23%               | 15%         |
| Sales and other inflows  | 42,238                  | 36,857            | 31,808            | 15%               | 16%         |
| Redemptions/outflows   | (36,561)                | (21,941)          | (17,045)          | 67%               | 29%         |
| Net flows  | 5,677                   | 14,916            | 14,763            | -62%              | 1%          |
| Exchanges  | 94                      | 58                | (22)              | 62%               | NM          |
| Market value change  | 5,769                   | 15,576            | 2,378             | -63%              | 555%        |
| <b>Parametric custom portfolios assets - end of period</b>               | <b>\$ 176,435</b>       | <b>\$ 164,895</b> | <b>\$ 134,345</b> | <b>7%</b>         | <b>23%</b>  |
| Parametric overlay services assets - beginning of period                 | 94,789                  | 77,871            | 86,976            | 22%               | -10%        |
| Sales and other inflows  | 94,214                  | 73,376            | 65,812            | 28%               | 11%         |
| Redemptions/outflows   | (97,715)                | (62,363)          | (74,095)          | 57%               | -16%        |
| Net flows  | (3,501)                 | 11,013            | (8,283)           | NM                | NM          |
| Exchanges  | 178                     | -                 | -                 | NM                | NM          |
| Market value change  | 3,007                   | 5,905             | (822)             | -49%              | NM          |
| <b>Parametric overlay services assets - end of period</b>                | <b>\$ 94,473</b>        | <b>\$ 94,789</b>  | <b>\$ 77,871</b>  | <b>0%</b>         | <b>22%</b>  |
| Total assets under management - beginning of period                      | 497,432                 | 439,303           | 422,316           | 13%               | 4%          |
| Sales and other inflows  | 204,085                 | 168,861           | 156,453           | 21%               | 8%          |
| Redemptions/outflows   | (199,347)               | (144,938)         | (139,112)         | 38%               | 4%          |
| Net flows  | 4,738                   | 23,923            | 17,341            | -80%              | 38%         |
| Assets acquired <sup>(3)</sup>   | 2,267                   | -                 | -                 | NM                | NM          |
| Exchanges  | (2)                     | (8)               | (2)               | -75%              | 300%        |
| Market value change  | 11,302                  | 34,214            | (352)             | -67%              | NM          |
| <b>Total assets under management - end of period</b>                     | <b>\$ 515,737</b>       | <b>\$ 497,432</b> | <b>\$ 439,303</b> | <b>4%</b>         | <b>13%</b>  |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See table on page 34 for directly managed assets and flows of 49 percent-owned Hexavest, which are not included in the table above.

<sup>(2)</sup> Includes balanced and other multi-asset mandates. Excludes equity mandates reported as Parametric custom portfolios.

<sup>(3)</sup> Represents managed assets gained in the acquisition of the business assets of WaterOak on October 16, 2020.

<sup>(4)</sup> Includes cash management mandates. Excludes benchmark-based fixed income separate accounts reported as Parametric custom portfolios. Amounts for periods prior to fiscal 2020 have been revised to reflect the reclassification of benchmark-based fixed income separate accounts from fixed income to Parametric custom portfolios in the first quarter of fiscal 2020.

<sup>(5)</sup> Consists of absolute return and commodity mandates.

<sup>(6)</sup> Equity, fixed income and multi-asset separate accounts managed by Parametric for which customization is a primary feature; other Parametric strategies may also be customized. Amounts for periods prior to fiscal 2020 have been revised to reflect the reclassification of benchmark-based fixed income separate accounts from fixed income to Parametric custom portfolios in the first quarter of fiscal 2020.

<sup>(7)</sup> Not meaningful (NM).

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

| (in millions)  | Years Ended October 31, |                   |                   | 2020       | 2019       |
|--|-------------------------|-------------------|-------------------|------------|------------|
|  | 2020                    | 2019              | 2018              | vs. 2019   | vs. 2018   |
| Funds - beginning of period                            | \$ 174,068              | \$ 164,968        | \$ 156,853        | 6%         | 5%         |
| Sales and other inflows                                | 52,177                  | 44,337            | 44,470            | 18%        | 0%         |
| Redemptions/outflows                                   | (46,022)                | (43,349)          | (34,802)          | 6%         | 25%        |
| Net flows  | 6,155                   | 988               | 9,668             | 523%       | -90%       |
| Assets acquired <sup>(2)</sup>                         | 237                     | -                 | -                 | NM         | NM         |
| Exchanges  | (6)                     | (84)              | 305               | -93%       | NM         |
| Market value change                                    | 966                     | 8,196             | (1,858)           | -88%       | NM         |
| <b>Funds - end of period</b>                           | <b>\$ 181,420</b>       | <b>\$ 174,068</b> | <b>\$ 164,968</b> | <b>4%</b>  | <b>6%</b>  |
| Institutional separate accounts - beginning of period  | 173,331                 | 153,996           | 159,986           | 13%        | -4%        |
| Sales and other inflows                                | 108,684                 | 85,401            | 79,502            | 27%        | 7%         |
| Redemptions/outflows                                   | (120,787)               | (78,471)          | (85,638)          | 54%        | -8%        |
| Net flows  | (12,103)                | 6,930             | (6,136)           | NM         | NM         |
| Exchanges  | 69                      | 86                | 18                | -20%       | 378%       |
| Market value change                                    | 2,380                   | 12,319            | 128               | -81%       | NM         |
| <b>Institutional separate accounts - end of period</b> | <b>\$ 163,677</b>       | <b>\$ 173,331</b> | <b>\$ 153,996</b> | <b>-6%</b> | <b>13%</b> |
| Individual separate accounts - beginning of period     | 150,033                 | 120,339           | 105,477           | 25%        | 14%        |
| Sales and other inflows                                | 43,224                  | 39,123            | 32,481            | 10%        | 20%        |
| Redemptions/outflows                                   | (32,538)                | (23,118)          | (18,672)          | 41%        | 24%        |
| Net flows  | 10,686                  | 16,005            | 13,809            | -33%       | 16%        |
| Assets acquired <sup>(2)</sup>                         | 2,030                   | -                 | -                 | NM         | NM         |
| Exchanges  | (65)                    | (10)              | (325)             | 550%       | -97%       |
| Market value change                                    | 7,956                   | 13,699            | 1,378             | -42%       | 894%       |
| <b>Individual separate accounts - end of period</b>    | <b>\$ 170,640</b>       | <b>\$ 150,033</b> | <b>\$ 120,339</b> | <b>14%</b> | <b>25%</b> |
| Total assets under management - beginning of period    | 497,432                 | 439,303           | 422,316           | 13%        | 4%         |
| Sales and other inflows                                | 204,085                 | 168,861           | 156,453           | 21%        | 8%         |
| Redemptions/outflows                                   | (199,347)               | (144,938)         | (139,112)         | 38%        | 4%         |
| Net flows  | 4,738                   | 23,923            | 17,341            | -80%       | 38%        |
| Assets acquired <sup>(2)</sup>                         | 2,267                   | -                 | -                 | NM         | NM         |
| Exchanges  | (2)                     | (8)               | (2)               | -75%       | 300%       |
| Market value change                                    | 11,302                  | 34,214            | (352)             | -67%       | NM         |
| <b>Total assets under management - end of period</b>   | <b>\$ 515,737</b>       | <b>\$ 497,432</b> | <b>\$ 439,303</b> | <b>4%</b>  | <b>13%</b> |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See the table on page 34 for directly managed assets and flows of 49 percent-owned Hexavest, which are not included in the table above.

<sup>(2)</sup> Represents managed assets gained in the acquisition of the business assets of WaterOak on October 16, 2020.

As of October 31, 2020, managed assets of our 49 percent-owned affiliate Hexavest were \$5.8 billion, down 56 percent from \$13.4 billion of managed assets on October 31, 2019. The decline in Hexavest's assets under management in fiscal 2020 reflects net outflows of \$6.2 billion and market price declines of \$1.3 billion during the fiscal year. In the third and fourth quarters of fiscal 2020, we recognized impairment losses totaling \$122.2 million on the Company's investment in Hexavest to reflect the declines in Hexavest's revenue and profits attributable to lower managed assets. See Note 4, Investments, in Notes to Consolidated Financial Statements within this Annual Report for additional details. Other than Eaton Vance-sponsored funds for which Hexavest is adviser or sub-adviser, the managed assets and flows of Hexavest are not included in our consolidated totals. The following table summarizes the assets under management and net flows of Hexavest.

### Hexavest Assets under Management and Net Flows

| <i>(in millions)</i>   | Years Ended October 31, |                  |                  | 2020        | 2019        |
|--|-------------------------|------------------|------------------|-------------|-------------|
|  | 2020                    | 2019             | 2018             | vs. 2019    | vs. 2018    |
| <b>Eaton Vance distributed:</b>  |                         |                  |                  |             |             |
| Eaton Vance sponsored funds – beginning of period <sup>(1)</sup>                     | \$ 152                  | \$ 159           | \$ 182           | -4%         | -13%        |
| Sales and other inflows  | 39                      | 48               | 12               | -19%        | 300%        |
| Redemptions/outflows   | (122)                   | (69)             | (35)             | 77%         | 97%         |
| Net flows  | (83)                    | (21)             | (23)             | 295%        | -9%         |
| Market value change  | (13)                    | 14               | -                | NM          | NM          |
| <b>Eaton Vance sponsored funds – end of period</b>                                   | <b>\$ 56</b>            | <b>\$ 152</b>    | <b>\$ 159</b>    | <b>-63%</b> | <b>-4%</b>  |
| <b>Eaton Vance distributed separate accounts – beginning of period<sup>(2)</sup></b> |                         |                  |                  |             |             |
| Eaton Vance distributed separate accounts – beginning of period <sup>(2)</sup>       | \$ 1,563                | \$ 2,169         | \$ 3,092         | -28%        | -30%        |
| Sales and other inflows  | 49                      | 105              | 230              | -53%        | -54%        |
| Redemptions/outflows   | (973)                   | (859)            | (1,176)          | 13%         | -27%        |
| Net flows  | (924)                   | (754)            | (946)            | 23%         | -20%        |
| Market value change  | (160)                   | 148              | 23               | NM          | 543%        |
| <b>Eaton Vance distributed separate accounts – end of period</b>                     | <b>\$ 479</b>           | <b>\$ 1,563</b>  | <b>\$ 2,169</b>  | <b>-69%</b> | <b>-28%</b> |
| <b>Total Eaton Vance distributed – beginning of period</b>                           |                         |                  |                  |             |             |
| Total Eaton Vance distributed – beginning of period                                  | \$ 1,715                | \$ 2,328         | \$ 3,274         | -26%        | -29%        |
| Sales and other inflows  | 88                      | 153              | 242              | -42%        | -37%        |
| Redemptions/outflows   | (1,095)                 | (928)            | (1,211)          | 18%         | -23%        |
| Net flows  | (1,007)                 | (775)            | (969)            | 30%         | -20%        |
| Market value change  | (173)                   | 162              | 23               | NM          | 604%        |
| <b>Total Eaton Vance distributed – end of period</b>                                 | <b>\$ 535</b>           | <b>\$ 1,715</b>  | <b>\$ 2,328</b>  | <b>-69%</b> | <b>-26%</b> |
| <b>Hexavest directly distributed – beginning of period<sup>(3)</sup></b>             |                         |                  |                  |             |             |
| Hexavest directly distributed – beginning of period <sup>(3)</sup>                   | \$ 11,640               | \$ 11,467        | \$ 12,748        | 2%          | -10%        |
| Sales and other inflows  | 453                     | 1,769            | 1,149            | -74%        | 54%         |
| Redemptions/outflows   | (5,678)                 | (2,574)          | (2,416)          | 121%        | 7%          |
| Net flows  | (5,225)                 | (805)            | (1,267)          | 549%        | -36%        |
| Market value change  | (1,104)                 | 978              | (14)             | NM          | NM          |
| <b>Hexavest directly distributed – end of period</b>                                 | <b>\$ 5,311</b>         | <b>\$ 11,640</b> | <b>\$ 11,467</b> | <b>-54%</b> | <b>2%</b>   |
| <b>Total Hexavest assets – beginning of period</b>                                   |                         |                  |                  |             |             |
| Total Hexavest assets – beginning of period  | \$ 13,355               | \$ 13,795        | \$ 16,022        | -3%         | -14%        |
| Sales and other inflows  | 541                     | 1,922            | 1,391            | -72%        | 38%         |
| Redemptions/outflows   | (6,773)                 | (3,502)          | (3,627)          | 93%         | -3%         |
| Net flows  | (6,232)                 | (1,580)          | (2,236)          | 294%        | -29%        |
| Market value change  | (1,277)                 | 1,140            | 9                | NM          | NM          |
| <b>Total Hexavest assets – end of period</b>   | <b>\$ 5,846</b>         | <b>\$ 13,355</b> | <b>\$ 13,795</b> | <b>-56%</b> | <b>-3%</b>  |

<sup>(1)</sup> Managed assets and flows of Eaton Vance-sponsored funds for which Hexavest is adviser or sub-adviser. Eaton Vance receives management fees (and in some cases also distribution fees) on these assets, which are included in our consolidated assets under management, flows and average annualized management fee rates.

<sup>(2)</sup> Managed assets and flows of Eaton Vance-distributed separate accounts managed by Hexavest. Eaton Vance receives distribution fees, but not management fees, on these assets, which are not included in our consolidated assets under management, flows and average annualized management fee rates.

<sup>(3)</sup> Managed assets and flows of pre-transaction Hexavest clients and post-transaction Hexavest clients in Canada. Eaton Vance receives no management fees or distribution fees on these assets, which are not included in our consolidated assets under management, flows and average annualized management fee rates.

## Results of Operations

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

Management believes that certain non-U.S. GAAP financial measures, specifically, adjusted operating income, adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share, while not a substitute for U.S. GAAP financial measures, may be effective indicators of our performance over time. Non-U.S. GAAP financial measures should not be construed to be superior to U.S. GAAP measures. In calculating these non-U.S. GAAP financial measures, operating income, net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share are adjusted to exclude items management deems non-operating or non-recurring in nature, or otherwise outside the ordinary course of business. These adjustments may include, when applicable, the add back of closed-end fund structuring fees, costs associated with debt repayments and tax settlements, the tax impact of stock-based compensation shortfalls or windfalls, impairment charges, costs in connection with the proposed acquisition of Eaton Vance by Morgan Stanley and other acquisition-related items, and non-recurring charges for the effect of tax law changes. Adjustments to operating income also include the add-back of management fee revenue received from consolidated sponsored funds and consolidated collateralized loan obligation (CLO) entities (collectively, consolidated investment entities) that are eliminated in consolidation and the non-management expenses of consolidated sponsored funds recognized in consolidation. Adjustments to net income attributable to Eaton Vance Corp. shareholders include the after-tax impact of these adjustments to operating income and the elimination of gains (losses) and other investment income (expense) of consolidated investment entities and other seed capital investments included in non-operating income (expense), as determined net of tax and non-controlling and other beneficial interests. Management and our Board of Directors, as well as certain of our outside investors, consider the adjusted numbers a measure of our underlying operating performance. Management believes adjusted operating income, adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share are important indicators of our operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results, and may provide a useful baseline for analyzing trends in our underlying business.

Effective in the second quarter of fiscal 2020, our calculation of non-U.S. GAAP financial measures was revised to reflect the treatment of consolidated investment entities and other seed capital investments described in the previous paragraph. All prior period non-U.S. GAAP financial measures have been updated to reflect this change.

The following tables provide a reconciliation of operating income to adjusted operating income, net income attributable to Eaton Vance Corp. shareholders to adjusted net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share to adjusted earnings per diluted share, respectively:

| <i>(in thousands)</i>  | Years Ended October 31, |            |            | 2020        | 2019        |
|--|-------------------------|------------|------------|-------------|-------------|
|  | 2020                    | 2019       | 2018       | vs.<br>2019 | vs.<br>2018 |
| Operating income   | \$ 374,240              | \$ 520,871 | \$ 555,202 | -28%        | -6%         |
| Management fees of consolidated sponsored funds and consolidated CLO entities <sup>(1)</sup>                                     | 5,800                   | 5,521      | (8)        | 5%          | NM          |
| Non-management expenses of consolidated sponsored funds <sup>(2)</sup>   | 4,388                   | 5,375      | 4,773      | -18%        | 13%         |
| Accelerated stock-based compensation expense related to the proposed acquisition of Eaton Vance by Morgan Stanley <sup>(3)</sup> | 145,993                 | -          | -          | NM          | NM          |
| Other costs related to the proposed acquisition of Eaton Vance by Morgan Stanley <sup>(4)</sup>                                  | 8,458                   | -          | -          | NM          | NM          |
| Adjusted operating income  | \$ 538,879              | \$ 531,767 | \$ 559,967 | 1%          | -5%         |

| <i>(in thousands, except per share data)</i>   | Years Ended October 31, |            |            | 2020        | 2019        |
|--|-------------------------|------------|------------|-------------|-------------|
|  | 2020                    | 2019       | 2018       | vs.<br>2019 | vs.<br>2018 |
| Net income attributable to Eaton Vance Corp. shareholders  | \$ 138,516              | \$ 400,035 | \$ 381,938 | -65%        | 5%          |
| Management fees of consolidated sponsored funds and consolidated CLO entities, net of tax <sup>(1)</sup>                                     | 4,304                   | 4,107      | (5)        | 5%          | NM          |
| Non-management expenses of consolidated sponsored funds, net of tax <sup>(2)</sup>   | 3,256                   | 4,000      | 3,471      | -19%        | 15%         |
| Accelerated stock-based compensation expense related to the proposed acquisition of Eaton Vance by Morgan Stanley, net of tax <sup>(3)</sup> | 108,648                 | -          | -          | NM          | NM          |
| Other costs related to the proposed acquisition of Eaton Vance by Morgan Stanley, net of tax <sup>(4)</sup>                                  | 6,294                   | -          | -          | NM          | NM          |
| Net gains and other investment income related to consolidated sponsored funds and other seed capital investments, net of tax <sup>(5)</sup>  | (7,544)                 | (14,758)   | (5,063)    | -49%        | 191%        |
| Loss on write-off of Hexavest option, net of tax <sup>(6)</sup>  | -                       | -          | 5,660      | NM          | -100%       |
| Other (income) expenses of consolidated CLO entities, net of tax <sup>(7)</sup>  | 14,160                  | (8,135)    | (1,169)    | NM          | 596%        |
| Net excess tax benefit from stock-based compensation plans   | (8,968)                 | (5,404)    | (17,487)   | 66%         | -69%        |
| Revaluation of deferred tax amounts <sup>(8)</sup>   | -                       | -          | 21,220     | NM          | -100%       |
| Repatriation of undistributed earnings of foreign subsidiaries <sup>(9)</sup>  | -                       | -          | 2,807      | NM          | -100%       |
| Impairment loss recognized on investment in Hexavest <sup>(10)</sup>   | 122,238                 | -          | -          | NM          | NM          |
| Adjusted net income attributable to Eaton Vance Corp. Shareholders   | \$ 380,904              | \$ 379,845 | \$ 391,372 | 0%          | -3%         |
| Earnings per diluted share   | \$ 1.20                 | \$ 3.50    | \$ 3.11    | -66%        | 13%         |
| Management fees of consolidated sponsored funds and consolidated CLO entities, net of tax  | 0.04                    | 0.04       | -          | 0%          | NM          |
| Non-management expenses of consolidated sponsored funds, net of tax  | 0.03                    | 0.03       | 0.01       | 0%          | 200%        |
| Accelerated stock-based compensation expense related to the proposed acquisition of Eaton Vance by Morgan Stanley, net of tax                | 0.94                    | -          | -          | NM          | NM          |
| Other costs related to the proposed acquisition of Eaton Vance by Morgan Stanley, net of tax   | 0.05                    | -          | -          | NM          | NM          |
| Net gains and other investment income related to consolidated sponsored funds and other seed capital investments, net of tax                 | (0.07)                  | (0.13)     | (0.03)     | -46%        | 333%        |
| Loss on write-off of Hexavest option, net of tax   | -                       | -          | 0.05       | NM          | -100%       |
| Other (income) expenses of consolidated CLO entities, net of tax   | 0.12                    | (0.07)     | (0.01)     | NM          | 600%        |
| Net excess tax benefit from stock-based compensation plans   | (0.08)                  | (0.05)     | (0.14)     | 60%         | -64%        |
| Revaluation of deferred tax amounts  | -                       | -          | 0.17       | NM          | -100%       |
| Repatriation of undistributed earnings of foreign subsidiaries   | -                       | -          | 0.02       | NM          | -100%       |
| Impairment loss recognized on investment in Hexavest   | 1.06                    | -          | -          | NM          | NM          |
| Adjusted earnings per diluted share  | \$ 3.29                 | \$ 3.32    | \$ 3.18    | -1%         | 4%          |

- <sup>(1)</sup> Represents management fees eliminated upon the consolidation of sponsored funds and CLO entities.
- <sup>(2)</sup> Represents expenses of consolidated sponsored funds.
- <sup>(3)</sup> Represents stock-based compensation expense accelerated upon the approval by the Eaton Vance voting trust of the plan of merger with Morgan Stanley and associated payroll taxes.
- <sup>(4)</sup> Primarily represents legal and consulting costs related to the proposed acquisition of Eaton Vance by Morgan Stanley.
- <sup>(5)</sup> Represents gains, losses and other investment income earned on investments in sponsored strategies, whether accounted for as consolidated funds, separate accounts or equity investments, as well as the gains and losses recognized on derivatives used to hedge these investments. Stated amounts are net of non-controlling interests where applicable.
- <sup>(6)</sup> Represents the loss recognized upon expiration of the Company's option to acquire an additional 26 percent ownership interest in Hexavest.
- <sup>(7)</sup> Represents other income and expenses of consolidated CLO entities.
- <sup>(8)</sup> Represents the revaluation of deferred tax assets and deferred tax liabilities resulting from the enactment of the Tax Cuts and Jobs Act (2017 Tax Act) on December 22, 2017.
- <sup>(9)</sup> Represents the recognition of incremental tax expense related to the deemed repatriation of foreign earnings considered to be indefinitely reinvested abroad and not previously subject to U.S. taxation.
- <sup>(10)</sup> Represents an impairment loss recognized on the Company's investment in 49 percent-owned affiliate Hexavest.

The \$261.5 million decrease in net income attributable to Eaton Vance Corp. shareholders in fiscal 2020 compared to fiscal 2019 reflects:

- An increase in revenue of \$47.1 million, reflecting increases in management fees and service fees, partially offset by decreases in distribution and underwriting fees and other revenue.
- An increase in operating expenses of \$193.7 million, primarily reflecting an increase in compensation driven by the \$146.0 million of accelerated stock-based compensation expense recognized in connection with the proposed acquisition of Eaton Vance by Morgan Stanley, as well as increases in service fee expense, amortization of deferred sales commissions, fund-related expenses and other operating expenses, partially offset by a decrease in distribution expense.
- A negative change in non-operating income (expense) of \$77.9 million, primarily reflecting a \$47.8 million decrease in net gains and other investment income of consolidated sponsored funds and our investments in other sponsored strategies, and a \$30.0 million unfavorable change in net income (expense) of consolidated CLO entities.
- A decrease in income taxes of \$51.4 million.
- A negative change in equity in net income (loss) of affiliates, net of tax, of \$126.3 million, reflecting the \$122.2 million impairment loss recognized on our investment in Hexavest as well as a \$4.1 million decrease in income contribution from our equity method investees.
- A decrease in net income attributable to non-controlling and other beneficial interests of \$38.0 million.

Weighted average diluted shares outstanding increased by 1.3 million shares, or 1 percent, in fiscal 2020 compared to fiscal 2019, primarily reflecting an increase in the dilutive effect of restricted stock awards due principally to the accelerated vesting of restricted stock awards in connection with the proposed acquisition of Eaton Vance by Morgan Stanley.



## Revenue

The following table shows the components of our revenue:

| <i>(in thousands)</i>             | Years Ended October 31, |              |              | 2020        | 2019        |
|-----------------------------------|-------------------------|--------------|--------------|-------------|-------------|
|                                   | 2020                    | 2019         | 2018         | vs.<br>2019 | vs.<br>2018 |
| Management fees                   | \$ 1,514,388            | \$ 1,463,943 | \$ 1,459,186 | 3%          | 0%          |
| Distribution and underwriter fees | 77,056                  | 85,612       | 97,371       | -10%        | -12%        |
| Service fees                      | 131,724                 | 123,073      | 122,231      | 7%          | 1%          |
| Other revenue                     | 7,197                   | 10,624       | 13,634       | -32%        | -22%        |
| Total revenue                     | \$ 1,730,365            | \$ 1,683,252 | \$ 1,692,422 | 3%          | -1%         |

### Management fees

The \$50.4 million increase in management fees in fiscal 2020 compared to fiscal 2019 is primarily attributable to an 8 percent increase in consolidated average assets under management, a \$3.7 million decrease in fund subsidiaries, which are recorded as a contra-revenue component of management fees, and a \$3.3 million increase in performance-based fees, partially offset by a 4 percent decrease in our consolidated average management fee rate.

The following table shows our consolidated average annualized management fee rates by investment mandate, excluding performance-based fees, which were \$5.1 million, \$1.7 million and \$(1.7) million in fiscal 2020, 2019 and 2018, respectively. Our consolidated average management fee rates also exclude management fees earned on consolidated investment entities that are eliminated in consolidation, which were \$5.8 million, \$5.5 million and negligible in fiscal 2020, 2019 and 2018, respectively.

| <i>(in basis points on average managed assets)</i> | Years Ended October 31, |      |      | 2020        | 2019        |
|--|-------------------------|------|------|-------------|-------------|
|  | 2020                    | 2019 | 2018 | vs.<br>2019 | vs.<br>2018 |
| Equity <sup>(1)</sup>                              | 56.1                    | 56.9 | 58.9 | -1%         | -3%         |
| Fixed income <sup>(2)</sup>                        | 40.4                    | 41.7 | 42.5 | -3%         | -2%         |
| Floating-rate income                               | 49.5                    | 49.7 | 50.6 | 0%          | -2%         |
| Alternative <sup>(3)</sup>                         | 65.2                    | 61.4 | 64.8 | 6%          | -5%         |
| Parametric custom portfolios <sup>(4)</sup>        | 15.2                    | 14.8 | 14.6 | 3%          | 1%          |
| Parametric overlay services                        | 5.0                     | 5.1  | 5.2  | -2%         | -2%         |
| Total  | 30.3                    | 31.6 | 33.0 | -4%         | -4%         |

<sup>(1)</sup> Includes balanced and other multi-asset mandates. Excludes equity mandates reported as Parametric custom portfolios.

<sup>(2)</sup> Includes cash management mandates. Excludes benchmark-based fixed income separate accounts reported as Parametric custom portfolios. Amounts for periods prior to fiscal 2020 have been revised to reflect the reclassification of benchmark-based fixed income separate accounts from fixed income to Parametric custom portfolios in the first quarter of fiscal 2020.

<sup>(3)</sup> Consists of absolute return and commodity mandates.

<sup>(4)</sup> Equity, fixed income and multi-asset separate accounts managed by Parametric for which customization is a primary feature; other Parametric strategies may also be customized. Amounts for periods prior to fiscal 2020 have been revised to reflect the reclassification of benchmark-based fixed income separate accounts from fixed income to Parametric custom portfolios in the first quarter of fiscal 2020.

Consolidated average assets under management by investment mandate to which these fee rates apply can be found in the Consolidated Average Assets under Management by Investment Mandate table in Management's Discussion and Analysis of Financial Condition and Results of Operations within this Annual Report. Changes in the consolidated average management fee rates for the compared periods primarily reflect shifts in the Company's mix of business.

*Distribution and underwriter fees*

Distribution fees, which are earned under contractual agreements with certain sponsored funds, are calculated as a percentage of, and fluctuate with, average assets under management of the applicable funds and fund share classes. Distribution fees are paid by our sponsored funds to reimburse EVD for the costs of marketing and selling fund shares. These fees are largely passed through after one year as distribution expense to third-party intermediaries who distribute our sponsored funds. Underwriter fees, contingent deferred sales commissions and other redemption fees, and other distribution income primarily consists of underwriter commissions earned on sales of fund share classes subject to those fees, contingent deferred sales charges received on certain Class A redemptions and fundraising and servicing fees associated with the U.S. Charitable Gift Trust.

The following table shows fund distribution and underwriter fee revenue and other fund-related distribution income:

| <i>(in thousands)</i>                                       | Years Ended October 31, |           |           | 2020        | 2019        |
|---|-------------------------|-----------|-----------|-------------|-------------|
|   | 2020                    | 2019      | 2018      | vs.<br>2019 | vs.<br>2018 |
| <b>Distribution fees:</b>                                   |                         |           |           |             |             |
| Class A   | \$ 2,359                | \$ 3,104  | \$ 3,466  | -24%        | -10%        |
| Class B   | -                       | 104       | 357       | -100%       | -71%        |
| Class C   | 29,902                  | 39,187    | 56,400    | -24%        | -31%        |
| Class F   | 1,494                   | 1,530     | 1,602     | -2%         | -4%         |
| Class N <sup>(1)</sup>                                      | 49                      | 75        | 104       | -35%        | -28%        |
| Class R   | 1,779                   | 1,896     | 1,893     | -6%         | 0%          |
| Private funds   | 15,363                  | 11,456    | 9,177     | 34%         | 25%         |
| Total distribution fees                                     | \$ 50,946               | \$ 57,352 | \$ 72,999 | -11%        | -21%        |
| Underwriter commissions                                     | 19,489                  | 21,724    | 19,970    | -10%        | 9%          |
| Contingent deferred sales charges and other redemption fees | 1,941                   | 2,017     | 197       | -4%         | 924%        |
| Other distribution income                                   | 4,680                   | 4,519     | 4,205     | 4%          | 7%          |
| Total distribution and underwriter fees                     | \$ 77,056               | \$ 85,612 | \$ 97,371 | -10%        | -12%        |

<sup>(1)</sup> Consists of Investor class shares of Parametric Funds and Advisers class shares of Eaton Vance Funds.

The \$6.4 million decrease in distribution fees in fiscal 2020 compared to fiscal 2019 primarily reflects a decrease in Class C distribution fees driven by lower average managed assets of Class C mutual fund shares offset by an increase in distribution fees from private funds driven by higher average managed assets in these funds. The \$8.6 million decrease in total distribution and underwriter fees further reflects a \$2.2 million decrease in underwriter commissions.

### Service fees

Service fees, which are paid to EVD pursuant to distribution or service plans adopted by our sponsored mutual funds, are calculated as a percent of, and fluctuate with, average assets under management in specific mutual fund share classes (principally Classes A, C, N and R). Certain private funds also make service fee payments to EVD. These fees are largely passed through as service fee expense to third-party broker-dealers when received. Service fee revenue increased 7 percent in fiscal 2020 compared to fiscal 2019, primarily reflecting an increase in average assets in funds and fund share classes subject to service fees.

### Other revenue

Other revenue, which consists primarily of fund shareholder servicing fees, miscellaneous dealer income, referral fees and consultancy fees, decreased 32 percent in fiscal 2020 compared to fiscal 2019, primarily reflecting a \$1.6 million decrease in shareholder servicing fees, a \$1.1 million decrease in miscellaneous dealer income due to a terminated distribution agreement and a \$0.7 million decrease in Hexavest-related referral fees.

### Expenses

The following table shows our operating expenses:

| <i>(in thousands)</i>          | Years Ended October 31, |              |              | 2020        | 2019        |
|--------------------------------|-------------------------|--------------|--------------|-------------|-------------|
|                                | 2020                    | 2019         | 2018         | vs.<br>2019 | vs.<br>2018 |
| Compensation and related costs | \$ 793,681              | \$ 626,513   | \$ 604,631   | 27%         | 4%          |
| Distribution expense           | 141,170                 | 150,239      | 165,033      | -6%         | -9%         |
| Service fee expense            | 115,211                 | 107,762      | 106,831      | 7%          | 1%          |
| Amortization of deferred sales |                         |              |              |             |             |
| commissions                    | 24,986                  | 22,593       | 18,394       | 11%         | 23%         |
| Fund-related expenses          | 42,441                  | 40,357       | 37,602       | 5%          | 7%          |
| Other expenses                 | 238,636                 | 214,917      | 204,729      | 11%         | 5%          |
| Total expenses                 | \$ 1,356,125            | \$ 1,162,381 | \$ 1,137,220 | 17%         | 2%          |

### Compensation and related costs

The following table shows the details of our compensation and related costs:

| <i>(in thousands)</i>               | Years Ended October 31, |            |            | 2020        | 2019        |
|-------------------------------------|-------------------------|------------|------------|-------------|-------------|
|                                     | 2020                    | 2019       | 2018       | vs.<br>2019 | vs.<br>2018 |
| Base salaries and employee benefits | \$ 319,946              | \$ 293,753 | \$ 271,473 | 9%          | 8%          |
| Stock-based compensation            | 239,286                 | 91,913     | 88,055     | 160%        | 4%          |
| Operating income-based incentives   | 172,515                 | 165,462    | 174,527    | 4%          | -5%         |
| Sales-based incentives              | 61,295                  | 65,036     | 68,941     | -6%         | -6%         |
| Other compensation expense          | 639                     | 10,349     | 1,635      | -94%        | 533%        |
| Total                               | \$ 793,681              | \$ 626,513 | \$ 604,631 | 27%         | 4%          |

Compensation expense increased by \$167.2 million, or 27 percent, in fiscal 2020 compared to fiscal 2019. The increase in compensation expense was primarily driven by: (i) a \$147.4 million increase in stock-based

compensation expense, primarily due to the acceleration of \$146.0 million of stock-based compensation expense recognized in the fourth quarter of fiscal 2020 in connection with the proposed acquisition of Eaton Vance by Morgan Stanley; (ii) a \$26.2 million increase in base salaries and employee benefits associated with year-end salary increases and an increase in average headcount year-over-year; and (iii) a \$7.1 million increase in operating income-based bonus accruals. These increases were partially offset by a \$9.7 million decrease in other compensation expenses primarily due to lower severance expenses and a \$3.7 million decrease in sales-based incentive compensation.

#### *Distribution expense*

Distribution expense includes distribution fees paid to third-party intermediaries for the distribution of our sponsored funds and intermediary marketing support payments to qualified intermediaries for distribution, shareholder servicing and marketing and support of our sponsored funds. Distribution fees and certain intermediary marketing support payments are asset-based fees. Other asset-based fees included in distribution expense include finder's fees paid to intermediaries for referring certain retail, high-net-worth and institutional investors and payments made to distribution partners for certain closed-end funds. Distribution expense also includes front-end sales commissions paid, as well as discretionary marketing expenses, which are driven by corporate initiatives.

The following table shows the breakdown of our distribution expense:

| <i>(in thousands)</i>                        | Years Ended October 31, |                   |                   | 2020        | 2019        |
|--|-------------------------|-------------------|-------------------|-------------|-------------|
|  | 2020                    | 2019              | 2018              | vs.<br>2019 | vs.<br>2018 |
| Distribution fees                            | \$ 35,667               | \$ 45,248         | \$ 62,963         | -21%        | -28%        |
| Intermediary marketing support payments      | 54,735                  | 52,599            | 51,897            | 4%          | 1%          |
| Front-end sales commission expense           | 21,456                  | 21,162            | 19,025            | 1%          | 11%         |
| Discretionary marketing expenses             | 17,728                  | 19,276            | 18,958            | -8%         | 2%          |
| Finder's fees                                | 8,099                   | 8,242             | 8,309             | -2%         | -1%         |
| Closed-end fund dealer compensation payments | 3,485                   | 3,712             | 3,881             | -6%         | -4%         |
| <b>Total</b>                                 | <b>\$ 141,170</b>       | <b>\$ 150,239</b> | <b>\$ 165,033</b> | <b>-6%</b>  | <b>-9%</b>  |

Distribution expense decreased by \$9.1 million, or 6 percent, in fiscal 2020 compared to fiscal 2019, primarily reflecting lower Class C distribution fee payments driven by a decrease in average managed assets of Class C mutual fund shares and a decrease in discretionary marketing expenses. These decreases were partially offset by an increase in intermediary marketing support payments driven by an increase in average managed assets subject to these payments.

#### *Service fee expense*

Service fees we receive from sponsored funds in connection with new sales of fund shares are generally retained in the first year and paid to broker-dealers thereafter as service fee expense pursuant to third-party selling agreements. These fees are calculated as a percentage of average assets under management in certain share classes of our mutual funds (principally Classes A, C, N and R), as well as certain private funds. Service fee expense increased by \$7.4 million, or 7 percent, in fiscal 2020 compared to fiscal 2019, reflecting higher Class A and private fund service fee payments, partially offset by lower Class C service fee payments.

#### *Amortization of deferred sales commissions*

Amortization expense is primarily affected by ongoing sales of certain private funds and mutual fund Class C shares. Amortization expense increased by \$2.4 million, or 11 percent, in fiscal 2020 compared to fiscal 2019, primarily reflecting higher private fund commission amortization, partially offset by lower Class C commission amortization.

#### *Fund-related expenses*

Fund-related expenses consist of fees paid to sub-advisers, fund expenses borne by the Company on funds for which we earn an all-in fee, expenses of the sponsored funds we consolidate and other miscellaneous fund-related expenses. Fund-related expenses increased by \$2.1 million, or 5 percent, in fiscal 2020 compared to fiscal 2019, reflecting higher sub-advisory fees driven by increases in average managed assets in sub-advised funds, partially offset by lower fund expenses borne by the Company on funds for which we earn an all-in fee.

#### *Other expenses*

The following table shows our other expenses:

| <i>(in thousands)</i>             | Years Ended October 31, |            |            | 2020        | 2019        |
|-----------------------------------|-------------------------|------------|------------|-------------|-------------|
|                                   | 2020                    | 2019       | 2018       | vs.<br>2019 | vs.<br>2018 |
| Information technology            | \$ 121,467              | \$ 99,021  | \$ 89,972  | 23%         | 10%         |
| Facilities-related                | 54,711                  | 52,252     | 48,492     | 5%          | 8%          |
| Travel                            | 8,408                   | 18,717     | 18,020     | -55%        | 4%          |
| Professional services             | 27,654                  | 17,095     | 17,820     | 62%         | -4%         |
| Communications                    | 5,666                   | 6,156      | 5,749      | -8%         | 7%          |
| Amortization of intangible assets | 3,807                   | 4,978      | 8,927      | -24%        | -44%        |
| Other corporate expense           | 16,923                  | 16,698     | 15,749     | 1%          | 6%          |
| Total                             | \$ 238,636              | \$ 214,917 | \$ 204,729 | 11%         | 5%          |

The increase in information technology expense in fiscal 2020 is primarily attributable to an increase in project-related IT consulting services and software associated with investments in technology and strategic initiatives, higher system maintenance costs and an increase in market data services. The increase in professional services expenses primarily reflects increases in legal and consulting costs associated with the proposed acquisition of Eaton Vance by Morgan Stanley. The increase in facilities-related expenses is primarily attributable to increases in rent and other building expenses. These increases were partially offset by substantially lower travel expenses due to the COVID-19 pandemic and a decrease in amortization expense related to certain intangible assets that were fully amortized during the first quarter of fiscal 2020.

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

The following table shows the main categories of non-operating income (expense):

| <i>(in thousands)</i>                                | Years Ended October 31, |                  |                    | 2020        | 2019        |
|--|-------------------------|------------------|--------------------|-------------|-------------|
|  | 2020                    | 2019             | 2018               | vs.<br>2019 | vs.<br>2018 |
| Gains and other investment income, net               | \$ 3,243                | \$ 51,040        | \$ 10,066          | -94%        | 407%        |
| Interest expense                                     | (23,940)                | (23,795)         | (23,629)           | 1%          | 1%          |
| Other income (expense) of consolidated CLO entities: |                         |                  |                    |             |             |
| Gains and other investment income, net               | 36,123                  | 70,272           | 16,882             | -49%        | 316%        |
| Interest and other expense                           | (55,201)                | (59,350)         | (15,286)           | -7%         | 288%        |
| <b>Total non-operating income (expense)</b>          | <b>\$ (39,775)</b>      | <b>\$ 38,167</b> | <b>\$ (11,967)</b> | <b>NM</b>   | <b>NM</b>   |

Gains and other investment income, net, decreased by \$47.8 million in fiscal 2020 compared to fiscal 2019, reflecting a \$29.9 million unfavorable change in net investment gains (losses) primarily attributable to consolidated sponsored fund investments and associated hedges and an \$18.3 million decrease in interest and other income, partially offset by a decrease in foreign currency losses of \$0.4 million.

The change in other income (expense) of consolidated CLO entities in fiscal 2020 compared to fiscal 2019 reflects a \$30.0 million unfavorable change in net income (expense) of consolidated CLO entities due to a decrease in our economic interests in these entities. Our economic interests consist of changes in the fair market value of our investments in these entities, distributions received and management fees earned by the Company. The Company consolidated four securitized CLO entities and one warehouse stage CLO entity as of October 31, 2020 in comparison to four securitized CLO entities as of October 31, 2019.

### **Income Taxes**

Our effective tax rate, calculated as a percentage of income before income taxes and equity in net income (loss) of affiliates, was 25.1 percent and 24.2 percent in fiscal 2020 and 2019, respectively.

Our policy for accounting for income taxes includes monitoring our business activities and tax policies for compliance with federal, state and foreign tax laws. In the ordinary course of business, various taxing authorities may not agree with certain tax positions we have taken, or applicable law may not be clear. We periodically review these tax positions and provide for and adjust as necessary estimated liabilities relating to such positions as part of our overall tax provision.

Our income tax provision for fiscal 2020 and 2019 includes charges of \$5.7 million and \$3.2 million, respectively, associated with certain provisions of the 2017 Tax Act taking effect for the Company in fiscal 2019, relating principally to limitations on the deductibility of executive compensation.

Our income tax provision for fiscal 2020 and 2019 was reduced by net excess tax benefits related to stock-based compensation awards of \$9.0 million and \$5.4 million, respectively. Other items affecting the

Company's income tax provision included non-deductible executive compensation, prior period adjustments, primarily related to the filing of tax returns, and other permanent book-versus-tax differences.

Our calculations of adjusted net income and adjusted earnings per diluted share remove the accelerated stock-based compensation expense and other costs related to the proposed acquisition of Eaton Vance by Morgan Stanley, remove the impairment loss recognized in fiscal 2020 on the Company's investment in 49 percent-owned affiliate Hexavest, exclude gains (losses) and other investment income (expense) of consolidated investment entities and other seed capital investments, add back the management fees and expenses of consolidated investment entities, remove the tax impact of stock-based compensation shortfalls or windfalls, and remove the non-recurring tax impact of U.S. tax law changes. On this basis, our adjusted effective tax rate was 26.5 percent and 26.1 percent for fiscal 2020 and 2019, respectively.

The following table reconciles income before income taxes and equity in net income (loss) of affiliates to adjusted income before income taxes and equity in net income (loss) of affiliates and income tax expense to adjusted income tax expense:

| <i>(in thousands)</i>   | Years Ended October 31, |            |            | 2020        | 2019        |
|---|-------------------------|------------|------------|-------------|-------------|
|   | 2020                    | 2019       | 2018       | vs.<br>2019 | vs.<br>2018 |
| Income before income taxes and equity in net income (loss) of affiliates  | \$ 334,465              | \$ 559,038 | \$ 543,235 | -40%        | 3%          |
| Management fees of consolidated sponsored funds and consolidated CLO entities, pre-tax <sup>(1)</sup>   | 5,800                   | 5,521      | (8)        | 5%          | NM          |
| Non-management expenses of consolidated sponsored funds, pre-tax <sup>(2)</sup>   | 4,388                   | 5,375      | 4,773      | -18%        | 13%         |
| Accelerated stock-based compensation expense related to the proposed acquisition of Eaton Vance by Morgan Stanley, pre-tax <sup>(3)</sup>         | 145,993                 | -          | -          | NM          | NM          |
| Other costs related to the proposed acquisition of Eaton Vance by Morgan Stanley, pre-tax <sup>(4)</sup>  | 8,458                   | -          | -          | NM          | NM          |
| Net (gains) losses and other investment income related to consolidated sponsored funds and other seed capital investments, pre-tax <sup>(5)</sup> | 396                     | (39,925)   | (6,731)    | NM          | 493%        |
| Loss on write-off of Hexavest option, pre-tax <sup>(6)</sup>  | -                       | -          | 6,506      | NM          | -100%       |
| Other (income) expense of consolidated CLO entities, pre-tax <sup>(7)</sup>   | 19,078                  | (10,921)   | (1,596)    | NM          | 584%        |
| Adjusted income before income taxes and equity in net income (loss) of affiliates   | \$ 518,578              | \$ 519,088 | \$ 546,179 | 0%          | -5%         |
| Income tax expense  | \$ 83,900               | \$ 135,252 | \$ 156,703 | -38%        | -14%        |
| Management fees of consolidated sponsored funds and consolidated CLO entities <sup>(1)</sup>  | 1,496                   | 1,414      | (3)        | 6%          | NM          |
| Non-management expense of consolidated sponsored funds <sup>(2)</sup>   | 1,132                   | 1,375      | 1,302      | -18%        | 6%          |
| Accelerated stock-based compensation expense related to the proposed acquisition of Eaton Vance by Morgan Stanley <sup>(3)</sup>                  | 37,345                  | -          | -          | NM          | NM          |
| Other costs related to the proposed acquisition of Eaton Vance by Morgan Stanley <sup>(4)</sup>   | 2,164                   | -          | -          | NM          | NM          |
| Net gains and other investment income related to consolidated sponsored funds and other seed capital investments <sup>(5)</sup>                   | (2,620)                 | (5,084)    | (1,900)    | -48%        | 168%        |
| Loss on write-off of Hexavest option <sup>(6)</sup>   | -                       | -          | 846        | NM          | -100%       |
| Other (income) expense of consolidated CLO entities <sup>(7)</sup>  | 4,918                   | (2,786)    | (427)      | NM          | 552%        |
| Net excess tax benefit from stock-based compensation plans  | 8,968                   | 5,404      | 17,487     | 66%         | -69%        |
| Revaluation of deferred tax amounts <sup>(8)</sup>  | -                       | -          | (21,220)   | NM          | -100%       |
| Repatriation of undistributed earnings of foreign subsidiaries <sup>(9)</sup>   | -                       | -          | (2,807)    | NM          | -100%       |
| Adjusted income tax expense   | \$ 137,303              | \$ 135,575 | \$ 149,981 | 1%          | -10%        |
| Effective income tax rate   | 25.1%                   | 24.2%      | 28.8%      | 4%          | -16%        |
| Adjusted effective income tax rate  | 26.5%                   | 26.1%      | 27.5%      | 1%          | -5%         |

<sup>(1)</sup> Represents management fees eliminated upon the consolidation of sponsored funds and CLO entities.

<sup>(2)</sup> Represents expenses of consolidated sponsored funds.

<sup>(3)</sup> Represents stock-based compensation expense accelerated upon the approval by the Eaton Vance voting trust of the plan of merger with Morgan Stanley and associated payroll taxes.

<sup>(4)</sup> Primarily represents legal and consulting costs related to the proposed acquisition of Eaton Vance by Morgan Stanley.



- <sup>(5)</sup> Represents gains, losses and other investment income earned on investments in sponsored strategies, whether accounted for as consolidated funds, separate accounts or equity investments, as well as the gains and losses recognized on derivatives used to hedge these investments. Stated amounts are net of non-controlling interests.
- <sup>(6)</sup> Represents the loss recognized upon expiration of the Company's option to acquire an additional 26 percent ownership interest in Hexavest.
- <sup>(7)</sup> Represents other income and expenses of consolidated CLO entities.
- <sup>(8)</sup> Represents the revaluation of deferred tax assets and deferred tax liabilities resulting from the enactment of the 2017 Tax Act on December 22, 2017.
- <sup>(9)</sup> Represents the recognition of incremental tax expense related to the deemed repatriation of foreign earnings considered to be indefinitely reinvested abroad and not previously subject to U.S. taxation.

### Equity in Net Income (Loss) of Affiliates, Net of Tax

Equity in net income (loss) of affiliates, net of tax, primarily reflects our 49 percent equity interest in Hexavest and our seven percent minority equity interest in a private equity partnership managed by a third party. Equity in net income (loss) of affiliates in fiscal 2020 included the \$122.2 million impairment loss recognized on the Company's investment in Hexavest. See Note 4, Investments, in Notes to Consolidated Financial Statements within this Annual Report for further details. In addition to the impairment loss, equity in net income (loss) of affiliates, net of tax, for fiscal 2020 compared to fiscal 2019 reflects a \$3.3 million decrease in income contribution from Hexavest and a \$0.8 million loss recognized in fiscal 2020 from the Company's private equity partnership investment.

The following table summarizes the components of equity in net income of affiliates, net of tax:

| <i>(in thousands)</i>                                | Years Ended October 31, |          |           | 2020        | 2019        |
|--|-------------------------|----------|-----------|-------------|-------------|
|  | 2020                    | 2019     | 2018      | vs.<br>2019 | vs.<br>2018 |
| Investment in Hexavest, net of tax and amortization  | \$ (116,435)            | \$ 9,093 | \$ 10,955 | NM          | -17%        |
| Investment in private equity partnership, net of tax | (796)                   | (3)      | 418       | NM          | NM          |
| Total  | \$ (117,231)            | \$ 9,090 | \$ 11,373 | NM          | -20%        |

### Net (Income) Loss Attributable to Non-controlling and Other Beneficial Interests

The following table summarizes the components of net (income) loss attributable to non-controlling and other beneficial interests:

| <i>(in thousands)</i>   | Years Ended October 31, |             |             | 2020        | 2019        |
|---|-------------------------|-------------|-------------|-------------|-------------|
|   | 2020                    | 2019        | 2018        | vs.<br>2019 | vs.<br>2018 |
| Consolidated sponsored funds  | \$ 10,560               | \$ (20,081) | \$ 232      | NM          | NM          |
| Majority-owned subsidiaries   | (5,378)                 | (12,760)    | (16,199)    | -58%        | -21%        |
| Net (income) loss attributable to non- and other beneficial interests | \$ 5,182                | \$ (32,841) | \$ (15,967) | NM          | 106%        |

Net (income) loss attributable to non-controlling and other beneficial interests decreased by \$38.0 million in fiscal 2020 compared to fiscal 2019, primarily reflecting a decrease in income and (gains) losses of consolidated

investment entities and other seed capital investments. Net (income) loss attributable to majority-owned subsidiaries decreased by \$7.4 million, reflecting the Company's accelerated repurchase of certain capital and profit interests in Parametric entities held by current and former employees. The repurchase settled in the fourth quarter of fiscal 2019. Net (income) loss attributable to non-controlling and other beneficial interests is not adjusted for taxes due to the underlying tax status of our consolidated sponsored funds and consolidated majority-owned subsidiaries, which are treated as pass-through entities for tax purposes.

### **Changes in Financial Condition, Liquidity and Capital Resources**

The assets and liabilities of our consolidated CLO entities do not affect our liquidity or capital resources. The collateral assets of our consolidated CLO entities are held solely to satisfy the obligations of these entities and we have no right to these assets beyond our direct investment in, and management fees generated from, these entities. The note holders and third-party creditors of these entities have no recourse to the general credit of the Company. As a result, the assets and liabilities of our consolidated CLO entities are excluded from the discussion of liquidity and capital resources below.

The following table summarizes certain key financial data relating to our liquidity and capital resources and the uses of cash:

#### **Balance Sheet and Cash Flow Data**

| <i>(in thousands)</i>                 | <b>As of October 31,</b> |                   |                   |
|---------------------------------------|--------------------------|-------------------|-------------------|
|                                       | <b>2020</b>              | <b>2019</b>       | <b>2018</b>       |
| <b>Balance sheet data:</b>            |                          |                   |                   |
| <b>Assets:</b>                        |                          |                   |                   |
| Cash and cash equivalents             | \$ 799,384               | \$ 557,668        | \$ 600,696        |
| Management fees and other receivables | 249,806                  | 237,864           | 236,736           |
| Total liquid assets                   | <u>\$ 1,049,190</u>      | <u>\$ 795,532</u> | <u>\$ 837,432</u> |
| Investments                           | \$ 783,246               | \$ 1,060,739      | \$ 1,078,627      |
| <b>Liabilities:</b>                   |                          |                   |                   |
| Debt <sup>(1)</sup>                   | \$ 625,000               | \$ 625,000        | \$ 625,000        |

<sup>(1)</sup> Represents the principal amount of debt outstanding. The carrying value of the debt, including debt issuance costs, was \$621.3 million, \$620.5 million and \$619.7 million as of October 31, 2020, 2019 and 2018, respectively.

| <i>(in thousands)</i>  | <b>Years Ended October 31,</b> |             |             |
|------------------------|--------------------------------|-------------|-------------|
|                        | <b>2020</b>                    | <b>2019</b> | <b>2018</b> |
| <b>Cash flow data:</b> |                                |             |             |
| Operating cash flows   | \$ 324,829                     | \$ 511,818  | \$ 359,721  |
| Investing cash flows   | (514,441)                      | (675,870)   | (325,054)   |
| Financing cash flows   | 474,551                        | (48,356)    | 184,413     |

## ***Liquidity and Capital Resources***

Liquid assets consist of cash and cash equivalents and management fees and other receivables. Cash and cash equivalents consist of cash and short-term, highly liquid investments that are readily convertible to cash. Management fees and other receivables primarily represent receivables due from sponsored funds and separately managed accounts for investment advisory and distribution services provided. Excluding those assets identified as assets of consolidated CLO entities, liquid assets represented 38 percent and 32 percent of total assets on October 31, 2020 and 2019, respectively. Not included in the liquid asset amounts are \$290.2 million and \$317.9 million of highly liquid short-term debt securities with remaining maturities between three and 12 months held as of October 31, 2020 and 2019, respectively, which are included within investments on our Consolidated Balance Sheets. These amounts include \$20.4 million and \$20.1 million as of October 31, 2020 and 2019, respectively, in a separate account previously classified as a seed capital investment. Generally, our seed investments in consolidated funds and separate accounts are not treated as liquid assets because they may be longer term in nature.

As of October 31, 2020, our unsecured and unsubordinated debt consisted of \$325.0 million in aggregate principal amount of 3.625 percent Senior Notes due in June 2023 and \$300.0 million in aggregate principal amount of 3.5 percent Senior Notes due in April 2027. Interest on the senior notes is payable semi-annually in arrears. The senior notes do not contain debt covenants.

We maintain a \$300.0 million unsecured revolving credit facility with several banks that expires on December 11, 2023. The facility, which we entered into on December 11, 2018, provides that we may borrow at LIBOR or LIBOR-successor benchmark-based rates of interest that vary depending on our credit ratings. Accrued interest on any borrowing is payable quarterly in arrears and on the date of repayment. Subject to the terms and conditions of the credit facility, the amount available for borrowing may be increased to up to \$400.0 million through additional commitments by existing lenders or the addition of one or more new lenders to the syndicate. The credit facility contains financial covenants with respect to leverage and interest coverage, and requires us to pay a quarterly commitment fee on any unused portion. During the second quarter of fiscal 2020, at the onset of the COVID-19 pandemic, we borrowed \$300.0 million under our credit facility to demonstrate the Company's ability to access incremental liquidity if needed. Such borrowings were fully repaid during the second quarter. As of October 31, 2020, we had no borrowings under our revolving credit facility and we were in compliance with all debt covenants.

We continue to monitor our liquidity daily and are carefully managing our cash flow to maintain flexibility. We expect that our main uses of cash will be paying dividends, legal, consulting and compensation costs related to the proposed acquisition of Eaton Vance by Morgan Stanley, making seed investments in new investment strategies, maintaining and enhancing our technology infrastructure and paying the operating expenses of our business. We believe that our existing liquid assets, cash flows from operations and borrowing capacity under our revolving credit facility are sufficient to meet our current and forecasted operating cash needs. The risk exists, however, that if we need to raise additional capital or refinance existing debt in the future, resources may not be available to us in sufficient amounts or on acceptable terms. Our ability to enter the capital markets in a timely manner depends on a number of factors, including the state of global credit and equity markets, interest rates, credit spreads and our credit ratings at such time. Additionally, pursuant to the terms of the Merger Agreement with Morgan Stanley, we are not able to issue any additional equity or raise additional indebtedness without prior consent from Morgan Stanley. If we are unable to access capital markets to issue new debt, refinance existing debt or sell shares of our Non-Voting Common Stock as needed, or if we are unable to obtain such financing on acceptable terms, our business could be adversely affected. Eaton Vance's issuer rating is A3 by Moody's Investors Service and A- by S&P Global Ratings.

Pursuant to the terms of the Merger Agreement with Morgan Stanley, we are limited in our ability to take certain other actions without the consent of Morgan Stanley, including, among others, acquiring businesses, incurring capital expenditures or making seed capital investments above specified thresholds, increasing our regular quarterly dividend above its current amount per share and repurchasing shares of our Non-Voting Common Stock.

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

Our approximately \$800 million of investments as of October 31, 2020 consisted of our direct investments in Company-sponsored funds and separate accounts entered into for investment and business development purposes, investments held by the funds we consolidate, our 49 percent minority equity interest in Hexavest, and certain other investments held at cost. Investments directly held by the Company and investments held by funds that we consolidate are significant to us, and generally include liquid debt and equity securities that are held at fair value.

We assess our investments in equity method investees for impairment in the fourth quarter of each fiscal year, or as facts and circumstances indicate that additional analysis is warranted. Our investments in equity method investees primarily relate to our investment in Hexavest. Hexavest specializes in the management of global equity portfolios for institutional clients, applying a contrarian, top-down approach that emphasizes preservation of capital. Hexavest's value investing orientation and defensive positioning in a growth-driven, rising market has resulted in performance over recent periods that has lagged applicable market benchmarks, driving net outflows and declining assets under management. In the Company's fiscal 2020, Hexavest had net outflows of \$6.2 billion and ended the period with assets under management of \$5.8 billion, down 56 percent from twelve months earlier. The Company recognized impairment losses on its investment in Hexavest of \$100.5 million in the third quarter of fiscal 2020 and an additional \$21.8 million in the fourth quarter of fiscal 2020. The impairment losses recognized on the Company's investment in Hexavest in the third and fourth quarters of fiscal 2020 reflect the reductions in managed assets experienced by Hexavest and the associated declines in Hexavest's revenue and profits. As of October 31, 2020, the carrying value of the Company's investment in Hexavest was \$11.4 million. See Note 4, Investments, in Notes to Consolidated Financial Statements within this Annual Report for additional details.

We test our investments held at cost for impairment on a quarterly basis by assessing qualitative factors. Our investments held at cost consist primarily of a \$19.0 million investment in a U.S.-based wealth management technology firm. We qualitatively concluded that our investments held at cost were not impaired as of October 31, 2020.

We periodically review our deferred sales commissions and amortizing identifiable intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. There have been no significant events or changes in the financial condition of these assets in fiscal 2020 that would indicate that an impairment loss exists at October 31, 2020.

We assess indefinite-lived intangible assets for impairment in the fourth quarter of each fiscal year, or as facts and circumstances indicate that additional analysis is warranted. Our indefinite-lived intangible assets primarily include \$47.7 million of Calvert mutual fund management contracts acquired in fiscal 2017. Calvert is the centerpiece of our responsible investment strategy, and assets managed under Calvert branded strategies continued to experience strong growth in fiscal 2020. Accordingly, we qualitatively determined that these indefinite-lived intangible assets were not impaired as of October 31, 2020.

We also assess goodwill for impairment in the fourth quarter of each fiscal year, or as facts and circumstances indicate that additional analysis is warranted. The carrying amount of our goodwill of \$259.7 million primarily relates to goodwill associated with our acquisitions of Atlanta Capital, Parametric, Clifton and the Tax Advantaged Bond Strategies (TABS) business of M.D. Sass Investor Services that are combined into a single reporting unit. We allocate all goodwill associated with other acquisitions to a second reporting unit. Since acquisition, our reporting units have experienced considerable growth in managed assets and revenue, and we have realized synergies from integrating the acquired companies into our business. The financial performance of these reporting units remained strong throughout fiscal 2020. Accordingly, we qualitatively determined that our goodwill was not impaired as of October 31, 2020.

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

Our operating cash flows are calculated by adjusting net income to reflect other significant sources and uses of cash, certain significant non-cash items and timing differences in the cash settlement of other assets and liabilities. Significant sources and uses of cash that are not reflected in either revenue or expenses include cash flows associated with our deferred sales commission asset, as well as net cash flows associated with the purchase and sale of investments within the portfolios of our consolidated sponsored funds and separately managed accounts. Significant non-cash items include the amortization of deferred sales commissions and intangible assets, depreciation, stock-based compensation and equity in net income (loss) of affiliates.

Cash provided by operating activities totaled \$324.8 million in fiscal 2020 compared to \$511.8 million in fiscal 2019. The year-over-year change primarily reflects a decrease in net cash provided by operating activities of consolidated CLO entities, an increase in net inflows related to the purchase and sale of short-term debt securities, an increase in net outflows from investment activity of consolidated sponsored funds and separately managed accounts, and a decrease due to timing differences in the cash settlements of our other assets and liabilities.

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

Cash flows from investing activities primarily reflect the purchase of equipment and leasehold improvements, cash paid in acquisitions, the purchase and sale of non-consolidated sponsored funds and the purchase and sale of investments in CLO entity note obligations. In addition, investing cash flows reflect the investing activities of our consolidated CLO entities, including the purchase and sale of bank loans and other investments.

Cash used for investing activities totaled \$514.4 million in fiscal 2020 compared to \$675.9 million in fiscal 2019. The year-over-year change primarily reflects a \$128.8 million decrease in net purchases of bank loans and other investments by consolidated CLO entities, a \$27.2 million increase in proceeds from the sale of CLO entity note obligations, a \$14.9 million decrease in purchases of investments in CLO entity note obligations, a \$13.9 million decrease in additions to equipment and leasehold improvements and a \$5.5 million increase in net proceeds from sale of investments, all partially offset by a \$28.8 million increase in cash paid in acquisitions related to the acquisition of the business assets of WaterOak in October 2020.

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

Financing cash flows primarily reflect the issuance and repurchase of our Non-Voting Common Stock, the payment of dividends to our shareholders, the purchase of non-controlling interests in our majority-owned

subsidiaries and the activity related to borrowings from our line of credit. Financing cash flows also reflect the financing activities of consolidated funds, including the proceeds from the issuance of capital stock, and payments for redemptions and distributions to non-controlling interest holders of these funds. In addition, financing cash flows reflect the financing activities of consolidated CLO entities, including the issuance and repayment of CLO beneficial interests (senior and subordinated note obligations) and proceeds and repayments of CLO borrowings.

Cash provided by financing activities totaled \$474.6 million in fiscal 2020. Cash provided by financing activities of consolidated CLO entities totaled \$494.7 million in fiscal 2020 compared to \$405.8 million in fiscal 2019. The change primarily reflects an increase in consolidated CLO entities' net proceeds from the line of credit and a decrease in principal repayments of senior and subordinated note obligations, partially offset by a decrease in the issuance of senior and subordinated note obligations. The Company used \$185.2 million to repurchase and retire shares of our Non-Voting Common Stock in market transactions during the first and second fiscal quarters, paid \$8.4 million to acquire additional interests in Atlanta Capital and Parametric and received proceeds of \$112.6 million related to the issuance of shares of our Non-Voting Common Stock in connection with the exercise of stock options and other employee stock purchases. We did not repurchase any shares of our Non-Voting Common Stock in market transactions during the third or fourth quarters.

Our dividends declared per share increased to \$1.50 in fiscal 2020 from \$1.425 in fiscal 2019, with dividends paid increasing by \$24.8 million in fiscal 2020 compared to fiscal 2019. In addition, the Merger Agreement with Morgan Stanley provided for Eaton Vance shareholders to receive, prior to the closing of the proposed transaction, a special cash dividend of \$4.25 per share, which was declared by the Eaton Vance Board of Directors on November 23, 2020 and paid on December 18, 2020 to shareholders of record on December 4, 2020.

Cash used for financing activities totaled \$48.4 million in fiscal 2019. The Company used \$299.4 million to repurchase and retire shares of our Non-Voting Common Stock under our authorized repurchase programs, paid \$91.6 million to acquire additional interests in Atlanta Capital and Parametric, and received proceeds of \$51.3 million related to the issuance of shares of our Non-Voting Common Stock in connection with the exercise of stock options and other employee stock purchases. Of the \$91.6 million used to acquire additional interests in Atlanta Capital and Parametric, \$61.2 million related to the accelerated repurchase of the remaining outstanding profit interests granted under the Parametric Portfolio Associates LLC Long-Term Equity Plan (Parametric Plan) and \$12.3 million related to the accelerated repurchase of the remaining outstanding profit and capital interests related to the acquisition of Parametric Risk Advisors. The Company terminated the Parametric Plan in the first quarter of fiscal 2020.

## Contractual Obligations

The following table details our contractual obligations as of October 31, 2020:

| <i>(in millions)</i>  | Total           | Payments due by Period |               |              |                   |
|---|-----------------|------------------------|---------------|--------------|-------------------|
|   |                 | Less than 1 Year       | 1-3 Years     | 4-5 Years    | More than 5 Years |
| Operating leases  | \$ 356          | \$ 27                  | \$ 52         | \$ 52        | \$ 225            |
| WaterOak contingent liability   | 19              | -                      | 15            | 4            | -                 |
| Senior notes  | 625             | -                      | 325           | -            | 300               |
| Interest payment on senior notes  | 104             | 22                     | 45            | 21           | 16                |
| Payments to non-controlling interest holders of majority-owned subsidiaries | 7               | 7                      | -             | -            | -                 |
| Unrecognized tax benefits <sup>(1)</sup>                                    | 2               | 2                      | -             | -            | -                 |
| <b>Total</b>  | <b>\$ 1,113</b> | <b>\$ 58</b>           | <b>\$ 437</b> | <b>\$ 77</b> | <b>\$ 541</b>     |

Contractual obligations of consolidated CLO entities:

|   |                 |              |              |              |                 |
|---|-----------------|--------------|--------------|--------------|-----------------|
| Senior and subordinated note obligations, including interest <sup>(2)</sup> | \$ 1,956        | \$ 35        | \$ 70        | \$ 70        | \$ 1,781        |
| <b>Total for consolidated CLO entities</b>                                  | <b>\$ 1,956</b> | <b>\$ 35</b> | <b>\$ 70</b> | <b>\$ 70</b> | <b>\$ 1,781</b> |

<sup>(1)</sup> Includes accrued interest and penalties associated with unrecognized tax benefits.

<sup>(2)</sup> Only the assets of a consolidated CLO entity are available to satisfy the obligations of such entity. Other beneficial interest holders of consolidated CLO entities do not have any recourse to our general credit. In the event of default, recourse to the Company is limited to our investment in these entities.

In the fourth quarter of fiscal 2020, the Company, through its wholly-owned subsidiary Eaton Vance Investment Counsel, acquired substantially all of the assets of WaterOak. This transaction was accounted for as an asset acquisition. As part of the total cost of the acquisition, the Company incurred a contingent liability of \$19.3 million (reported within other liabilities on the Company's Consolidated Balance Sheet), representing estimated future cash payments to be made based on a prescribed multiple of WaterOak's attributable EBITDA for each twelve-month period ending October 31, 2021, 2022, 2023, and 2024. See Note 10, Acquisitions, Goodwill and Intangible Assets, in Notes to Consolidated Financial Statements within this Annual Report for further information.

Vested profit units (non-controlling interests) held by employees in the Atlanta Capital long-term equity incentive plan are not subject to mandatory redemption. Our repurchase of these non-controlling interests is predicated on the exercise of a series of put options held by profit unit holders and call options held by us. The put options provide the profit unit holders the right to require us to repurchase their interests at specified intervals over time. The call options we hold provide us with the right to require the profit unit holders to sell their interests to us at specified intervals over time, as well as upon the occurrence of certain events such as death or permanent disability. These non-controlling interests are redeemable at fair value. There is uncertainty as to the timing and amount of any purchases of vested profit units in the future. Accordingly, future payments to purchase non-controlling interests have been excluded from the table above, unless a put or call option has been exercised and a mandatory firm commitment exists for us to purchase such non-controlling interests. Payments to non-controlling interest holders of Atlanta Capital as of October 31, 2020

presented in the table above include a \$6.8 million payable to repurchase vested profit units as a consequence of our execution of a series of call options during fiscal 2020. Pursuant to the terms of the Merger Agreement with Morgan Stanley, in December 2020 the Company offered and obtained the consent of the holders of the remaining profit units that are outstanding under the Atlanta Capital Plan to purchase such profit interests for cash at fair value. The Company expects to purchase the indirect profit interests by December 31, 2020.

We report all redeemable non-controlling interests in temporary equity on our Consolidated Balance Sheet at estimated redemption value. The estimated redemption value of our non-controlling interests totaled \$222.9 million on October 31, 2020 compared to \$285.9 million on October 31, 2019. Redeemable non-controlling interests at October 31, 2020 consisted of vested profit units held by employees of Atlanta Capital granted under the Atlanta Capital long-term equity incentive plan of \$27.4 million and equity interests in our consolidated sponsored funds held by third-party shareholders of \$195.5 million.

Pursuant to the terms of the Merger Agreement with Morgan Stanley, upon the completion of the proposed acquisition of Eaton Vance by Morgan Stanley, each then outstanding and unexercised Eaton Vance stock option, whether vested or unvested, will be deemed to have been vested in full and cancelled and converted into the right to receive a cash payment. The amount of the cash payment will be equal to the excess of the per share cash consideration payable by Morgan Stanley to acquire the Company's Non-Voting Common Stock as of the closing date over the stock option exercise price (in-the-money amount of the option), plus, for holders of options who continue to provide services to the Company upon completion of the proposed acquisition, the amount by which, if any, the Black-Scholes value of the option as calculated in the manner prescribed in the Merger Agreement exceeds the in-the-money amount of the option. Holders of vested stock options may exercise their options prior to the closing date. The Company's obligation to make the aforementioned cash payments to holders of outstanding options is contingent on the close of the transaction. Although the amount of these cash payments may be significant, an estimate of such payments cannot be made since the payment amounts are dependent on both the number of options outstanding at the closing date and various market-based variables that cannot be measured until the closing date, including the price of Morgan Stanley Common Stock. Accordingly, future payments to holders of the Company's stock options upon completion of the proposed merger have been excluded from the table above.

In fiscal 2020, the Company engaged an unaffiliated investment banking firm to provide certain financial advisory services in connection with a potential sale or merger transaction involving the Company. The investment banking firm's compensation in connection with the Company's proposed acquisition by Morgan Stanley is contingent upon the completion of the transaction and will be calculated as a percentage of aggregate consideration paid. This amount is not included in the table above, as an estimate cannot be made at this point.

### **Foreign Subsidiaries**

As of October 31, 2020, we consider the undistributed earnings of certain foreign subsidiaries to be permanently reinvested, and not available to fund U.S. operations. As of October 31, 2020, we had approximately \$11.6 million of undistributed foreign earnings, primarily from operations in the U.K., which are not available to fund U.S. operations or to distribute to shareholders unless repatriated. In consideration of the treatment of taxable distributions under the 2017 Tax Act, the impact of Global Intangible Low Taxed Income on the Company's future foreign earnings and lack of withholding tax imposed by certain foreign governments, any future tax liability with respect to repatriating these undistributed foreign earnings is immaterial.



## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity or capital resources.

## Critical Accounting Policies

We believe the following critical accounting policies reflect our accounting policies that require significant judgments and estimates used in the preparation of our Consolidated Financial Statements. Actual results may differ from these estimates.

### *Consolidation of variable interest entities (VIEs)*

Accounting guidance provides a framework for determining whether an entity should be considered a VIE and, if so, whether our involvement with the entity represents a variable interest in the entity. Determining whether an entity is a VIE or a voting interest entity (VOE) involves judgment and analysis on an entity-by-entity basis. If we determine that we have a variable interest in a VIE, we must perform an analysis to determine whether we are the primary beneficiary of the VIE. If we determine we are the primary beneficiary of the VIE, we are required to consolidate the assets, liabilities, results of operations and cash flows of the VIE.

We maintain investments in various open-end registered investment companies (sponsored funds) and collateralized loan obligation (CLO) entities that we sponsor that meet the definition of a VIE and are therefore evaluated for consolidation under the VIE model. The VIE model is complex and judgments made when applying the model may affect our initial and ongoing consolidation conclusions. When applying this model, we must evaluate all of the relevant facts and circumstances in order to determine each entity's purpose, design, nature of risks, the level at which the decisions are made that most significantly impact economic performance, and the variability these entities were designed to pass along to interest holders (taking into consideration items including but not limited to, the activities of the entity, the terms of interest issued, and levels of subordination). If we determine that fees earned from various management arrangements represent variable interests in these VIEs, we must perform an analysis to determine whether our management fees and other interests provide us with a controlling financial interest such that we are deemed to be the primary beneficiary that is required to consolidate the VIE. Our management fees would not be considered variable interests if such fees are commensurate with the level of effort to provide the service, we do not hold other interests that in aggregate would absorb more than an insignificant amount of variability, and our management arrangements only include market based term and conditions. We are deemed the primary beneficiary of a VIE in the instances where we have both (1) the power through our asset management arrangements to direct the activities of the VIE that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE through our management fees and other financial interests.

Our sponsored funds are generally organized as separately managed series of a series trust. Each series trust contains multiple funds that issue equity interests to shareholders. The series trusts are treated as VIEs because shareholders of the component funds lack the ability to direct the activities that most significantly affect the economic performance of the series trust (such as the appointment of the investment adviser for each fund). Each fund within a series trust is separately evaluated for consolidation (i.e., evaluated as a silo within the series trust) since the assets of such fund irrevocably belong to the shareholders of that fund and are subject to the liabilities of that fund, and under no circumstances are the liabilities of one fund payable by

another fund in the series trust. Our asset management contracts represent variable interests, and we are treated as the primary beneficiary of a sponsored fund in instances where we hold at least a 10 percent ownership interest in the fund.

Our CLO entities meet the definition of a VIE, as the equity investment at risk is not sufficient to finance the activities of these entities, which are primarily financed through the issuance of senior debt obligations. These entities are evaluated for consolidation in both the warehouse phase and securitization phase. For CLO entities in the warehouse phase, the impact of any shared rights, kick-out rights (including liquidation rights) or participating rights is assessed to conclude whether either we or a third-party lender has the power to direct the activities that most significantly affect the identified risks (and therefore economic performance). For CLO entities in the securitization phase, as manager, we have the power to direct the activities that most significantly affect the economic performance. If we conclude that we have the power to direct the activities that significantly impact the economic performance of a CLO entity, our asset management arrangements are deemed variable interests and we are deemed the primary beneficiary of these entities in instances where we hold at least a 10 percent subordinated beneficial interest in the entity.

#### *Fair value measurements*

The accounting standards for fair value measurement provide a framework for measuring fair value and require expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The accounting standards establish a fair value measurement hierarchy, which requires an entity to maximize the use of observable inputs where available. Assets and liabilities measured and reported at fair value are categorized and disclosed as Level 1, Level 2 or Level 3 under that hierarchy based on the nature of the inputs that are significant to the fair value measurements in their entirety. This fair value measurement hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). See Note 1, Summary of Significant Accounting Policies, in Notes to Consolidated Financial Statements within this Annual Report for more information on fair value measurements.

We carry a significant portion of our financial instruments at fair value, including investments in short-term debt securities, debt and equity securities held by consolidated sponsored funds, debt and equity securities held in separately management accounts, investments in non-consolidated funds, derivative assets and liabilities, and assets and liabilities of consolidated CLO entities in the securitization phase. Our recognition of debt and equity securities held by consolidated sponsored funds at fair value retains the specialized accounting treatment of those funds. At October 31, 2020 and 2019, none of our investments carried at fair value are categorized as Level 3 within the fair value hierarchy. We utilize third-party pricing services to value investments and derivative instruments, which are categorized as Level 1 or Level 2 of the fair value hierarchy at October 31, 2020 and 2019.

For CLO entities in the securitization phase, we apply the measurement alternative to ASC 820 related to fair value measurement for collateralized financing entities upon initial consolidation and for the subsequent measurement of financial assets and liabilities of these entities. The measurement alternative requires that we use the more observable of the fair value of the financial assets or the fair value of the financial liabilities to measure both the financial assets and the financial liabilities of these entities. Subsequent to initial consolidation, we recognize in earnings amounts that reflect the equivalent of our economic interests in these CLO entities, which includes both the change in fair value of our retained subordinated notes, and management fees that we earned from providing collateral management services.

When applying the measurement alternative to consolidated CLO entities in the securitization phase, we determined that the fair value of the financial assets of these entities (senior floating-rate loans) is more observable than the fair value of the financial liabilities. Accordingly, we measure the fair value of the financial liabilities of these entities as the difference between the fair value of the senior-floating rate loans and the fair value of our beneficial interests. The valuation of the subordinated notes requires judgment and is calculated using an income approach, which applies an appropriate discount rate to projected senior-floating rate loan cash flows determined using relevant default, prepayment, recovery and discount rates, as well as observable assumptions about market yields, callability and other market factors. At October 31, 2020 and 2019, we primarily categorized the reported fair values of senior floating-rate loans as Level 2 since these fair values were based on either market quotations from third-party pricing services or valuations obtained from independent third-party brokers or dealers.

During the fourth quarter of fiscal 2020, we acquired WaterOak. This transaction was accounted for as an asset acquisition. The total cost to acquire WaterOak was \$48.1 million. At closing, we paid \$28.8 million in cash and incurred a contingent liability of \$19.3 million (reported within other liabilities on the Consolidated Balance Sheet), representing estimated future cash payments to be made based on a prescribed multiple of WaterOak's attributable EBITDA for each twelve-month period ending October 31, 2021, 2022, 2023, and 2024. The estimated fair value of the contingent liability was measured using a Monte Carlo simulation model prepared with the assistance of an independent valuation firm and approved by management (level 3 fair value measurement). Any difference between the cumulative cash payments made and the recorded amount of the contingent liability will be recognized as an adjustment to the carrying amount of the intangible assets recognized as part of the asset acquisition on a relative fair value basis. See Note 10, Acquisitions, Goodwill and Intangible Assets, in Notes to Consolidated Financial Statements within this Annual Report for further information.

#### *Investments in equity method investees*

The Company's 49 percent equity interest in Hexavest is accounted for under the equity method of accounting and does not have a readily determinable fair value. Investments in equity method investees are evaluated for impairment as events or changes in circumstances indicate that the carrying value of the investment may not be recoverable. Only a loss in value that is determined to be other-than-temporary is recognized by writing the carrying amount of the investment down to fair value (which becomes its new cost basis) through earnings. Other-than-temporary impairment charges are allocated to investor basis differences using the fair value method. The determination of whether an other-than-temporary impairment has occurred requires judgment.

During the second quarter of fiscal 2020, Hexavest experienced a decline in managed assets driven by declining market prices of managed assets and client withdrawals. Hexavest's managed assets and associated management fee revenue continued to decline during the third and fourth quarters of fiscal 2020, reflecting further client withdrawals attributable to disappointing investment performance in the pandemic-related March selloff and subsequent market recovery. Valuations of the Company's interest in Hexavest were prepared as of both June 30, 2020 (for the Company's third fiscal quarter) and October 31, 2020 with the assistance of an independent valuation firm and approved by the Company's management. At July 31, 2020, the Company estimated the fair value of the Company's investment in Hexavest to be \$32.7 million. Accordingly, at July 31, 2020, the Company recognized an impairment charge of \$100.5 million to write down the carrying amount of its investment to fair value. At October 31, 2020, the fair value of this investment was reduced to \$11.4 million in the wake of additional client withdrawals, which the Company determined was also an other-than-temporary impairment. Accordingly, at October 31, 2020, the Company recognized an additional impairment charge of \$21.8 million to write down the carrying amount of its investment to fair value.

A continued decline in managed assets could further reduce the fair value of the Company's investment in Hexavest and require additional impairment tests to be performed in future periods. See Note 4, Investments, in Notes to Consolidated Financial Statements within this Annual Report for further information.

#### *Income taxes*

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts and tax bases of our assets and liabilities measured using rates expected to be in effect when such differences reverse. To the extent that deferred tax assets are considered more likely than not to be unrealizable, valuation allowances are provided. Changes in tax policy may affect the carrying value of deferred tax assets and liabilities due to the change in future tax rates. Adjustments to deferred taxes resulting from changes in tax law are recorded as an expense or benefit in the period enacted.

Our effective tax rate reflects the statutory tax rates of the many jurisdictions in which we operate. Significant judgment is required in evaluating our tax positions. In the ordinary course of business, many transactions occur for which the ultimate tax outcome is uncertain. Accounting standards governing the accounting for uncertainty in income taxes for a tax position taken or expected to be taken in a tax return require that the tax effects of a position be recognized only if it is more likely than not to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold must be met in each reporting period to support continued recognition of the benefit. The difference between the tax benefit recognized in the financial statements for a tax position and the tax benefit claimed in the income tax return is referred to as an unrecognized tax benefit. Unrecognized tax benefits, as well as the related interest and penalties, are regularly evaluated and adjusted as appropriate to reflect changing facts and circumstances. We classify any interest or penalties incurred as a component of income tax expense.

#### *Goodwill*

Goodwill represents the excess of the cost of our investment in the net assets of acquired companies over the fair value of the underlying identifiable net assets at the dates of acquisition through applying the acquisition method of accounting. We allocate all goodwill associated with the acquisitions of Atlanta Capital, Parametric, Clifton and TABS, which share similar economic characteristics, to one reporting unit. The Company allocates all goodwill associated with other acquisitions to a second reporting unit.

Goodwill is not amortized, but is tested annually for impairment at the reporting unit level in the fourth quarter of each fiscal year and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount (a triggering event). A qualitative impairment assessment of relevant events and circumstances may be performed at any annual or interim period to determine whether a triggering event has occurred. A triggering event has occurred if an event or changes in circumstances occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Since acquisition, our reporting units have experienced considerable growth in managed assets and revenue, and we have realized synergies from integrating the acquired companies into our business. Also, recent valuations for Atlanta Capital and Parametric (including Clifton and TABS) used to measure stock-based compensation expense for equity awards and/or the redemption value of non-controlling interests support the conclusion that the fair value of the reporting units are in excess of their carrying amount. Accordingly, management has qualitatively concluded that a triggering event has not occurred with respect to our reporting units during fiscal 2020.

A quantitative impairment test must be performed when we conclude that a triggering event has occurred as a result of a qualitative impairment assessment, or when we elect to skip the qualitative assessment at any

annual or interim period and proceed directly to the quantitative impairment test. The first step of the quantitative impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill, at the impairment testing date. If the carrying amount of the reporting unit exceeds its calculated fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. Under the second step, an impairment loss is recognized equal to the amount of the excess, if any, of the implied fair value of goodwill over its carrying amount, limited to the total amount of goodwill allocated to that reporting unit. A recognized impairment loss may not be subsequently reversed.

#### *Intangible assets*

Amortizing identifiable intangible assets include the cost of client relationships, intellectual property, assembled workforce, and trademarks and research systems acquired. During the fourth quarter of fiscal 2020, we acquired WaterOak. This transaction was accounted for as an asset acquisition, through which the total cost of the acquisition of \$48.1 million was allocated to certain intangible assets recognized at acquisition (primarily client relationships) on the basis of their relative fair values. The valuations were prepared with the assistance of an independent valuation firm and approved by management. The value of the client relationships was estimated under the income approach using a multi-period excess earnings method. The key inputs in the valuation included forecasted assets under management, revenue and expenses, and a discount rate of 18 percent. See Note 10, Acquisitions, Goodwill and Intangible Assets, in Notes to Consolidated Financial Statements within this Annual Report for further information. Amortizing identifiable intangible assets are assessed for impairment if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable (a triggering event). There have been no significant events or changes in the financial condition of these assets in fiscal 2020 that would indicate that an impairment loss exists at October 31, 2020. Therefore, we conclude that a triggering event has not occurred. If a triggering event occurs, a quantitative impairment assessment must be performed. If the quantitative impairment assessment indicates that the carrying amounts of those assets are not recoverable and exceed their respective fair values, an impairment loss is recognized equal to that excess. In valuing these assets, we make assumptions regarding useful lives and projected growth rates, and significant judgment is required. A recognized impairment loss may not be subsequently reversed.

Non-amortizing intangible assets include the cost of mutual fund management contracts acquired. Non-amortizing intangible assets are tested for impairment in the fourth quarter of each fiscal year and between annual tests if events or changes in circumstances indicate that they are more likely than not impaired (a triggering event). Non-amortizing intangible assets primarily relate to Calvert mutual fund contracts acquired in fiscal 2017. Calvert is the centerpiece of our responsible investment strategy, and assets under management in Calvert-branded investment strategies continued to experience growth in fiscal 2020. Therefore, we conclude that a triggering event has not occurred. If a triggering event occurs, a quantitative impairment test must be performed by comparing the fair values of the management contracts acquired to their carrying values. We establish fair value for purposes of impairment testing using the income approach. If the carrying value of a management contract acquired exceeds its fair value, an impairment loss is recognized equal to that excess. A recognized impairment loss may not be subsequently reversed.

#### *Stock-based compensation*

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

We measure the fair value of restricted stock units and restricted stock awards based on the unadjusted observable closing market price of our publicly traded Non-Voting Common Stock on the date of grant. We estimate the fair value of stock option awards on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, expected volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management's judgment. The dividend yield assumption represents the Company's expected dividend yield based on its historical dividend payouts and the stock price at the date of grant. The expected volatility assumption is based upon its historical stock price fluctuations. We use historical data to estimate the expected life of options granted. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant.

We estimate the fair value of phantom incentive units granted to eligible employees of certain subsidiaries under subsidiary phantom incentive plans on the grant date utilizing an annual appraisal that is developed using two weighted valuation techniques: specifically, an income approach and a market approach. Each appraisal is prepared by an independent valuation firm and approved by management. The income approach employs a discounted cash flow model to ascribe an enterprise value that takes into account projections of future cash flows developed utilizing the best information available and market-based assumptions that are consistent with other comparable publicly traded investment management companies of a similar size, including current period actual results, historical trends, forecasted results provided by management and extended by the independent valuation firm, and an appropriate risk-adjusted discount rate that takes into consideration an estimated weighted average cost of capital. The market approach ascribes an enterprise value to the relevant subsidiary by applying market multiples of other comparable publicly traded investment management companies of a similar size. At the grant date, the per unit equity value is adjusted to take into consideration that holders of these units are not entitled to receive distributions of future earnings from the subsidiary, nor are they entitled to receive dividend or dividend equivalents from the subsidiary.

#### *Non-controlling interests*

Non-controlling interests redeemable at fair value consist of vested profit interests held by employees of Atlanta Capital that were granted under the Atlanta Capital Management Company, LLC Long-Term Equity Incentive Plan and interests in our consolidated sponsored funds. Such non-controlling interests are recorded in temporary equity at their estimated redemption value.

Vested profit interests are subject to holder put rights. We estimate the redemption value of vested profits interest using the approach described under *Stock-based compensation* above. Future changes in the estimated redemption value of vested profit interests are recognized as increases or decreases to additional paid-in capital. Reported balances attributable to vested profit interests are periodically increased by vesting activity of previously granted unvested interests (recorded in non-redeemable non-controlling interests in permanent equity) and decreased by payments to purchase these interests.

Investors in consolidated sponsored funds may request withdrawals at any time. We measure the redemption value of non-controlling interests in our consolidated sponsored funds utilizing published net asset values. Reported balances attributable to consolidated sponsored funds change over time to reflect periodic consolidation and deconsolidation activity attributable to the application of our consolidation accounting policy described under *Consolidation of variable interest entities (VIEs)* above.

## Accounting Developments

See Note 1, Summary of Significant Accounting Policies – Adoption of new accounting standard, and Note 2, New Accounting Standards Not Yet Adopted, in Notes to Consolidated Financial Statements within this Annual Report.

## Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, our financial position is subject to different types of risk, including market risk, which is the possibility of loss due to adverse changes in equity and bond prices, interest rates, credit events or currency exchange rates. Management is responsible for identifying, assessing and managing market and other risks.

In evaluating market risk, it is important to note that most of our revenue is based on the market value of assets under management. Declines of financial market values adversely affect our revenue and net income.

### Investments

Our primary direct exposure to equity price risk arises from investments in equity securities held by consolidated sponsored funds, through separately managed accounts and through investments in non-consolidated sponsored funds. Equity price risk as it relates to these investments represents the potential future loss of value that would result from a decline in the fair values of the fund shares or underlying equity securities.

The following is a summary of the effect that a 10 percent increase or decrease in equity prices would have on our investments that are subject to equity pricing fluctuations at October 31, 2020:

| <i>(in thousands)</i>                        | Carrying Value    | Carrying Value Assuming a 10% Increase | Carrying Value Assuming a 10% Decrease |
|--|-------------------|--|--|
| <b>Equity securities held at fair value:</b> |                   |  |  |
| Held by consolidated sponsored funds         | \$ 195,510        | \$ 215,061                             | \$ 175,959                             |
| Held through separately managed accounts     | 35,026            | 38,529                                 | 31,523                                 |
| Non-consolidated sponsored funds and other   | 10,497            | 11,547                                 | 9,447                                  |
| <b>Total</b>                                 | <b>\$ 241,033</b> | <b>\$ 265,137</b>                      | <b>\$ 216,929</b>                      |

At October 31, 2020, we were exposed to interest rate risk and credit risk as a result of approximately \$508.6 million in debt instruments held by consolidated sponsored funds, through separately managed accounts and through holdings of short-term debt securities. Management considered the impact a hypothetical 100 basis point change in interest rates would have on the carrying amount of our investments.

The following is a summary of the effect that a 100 basis point increase or decrease in interest rates would have on our investments that are subject to interest rate fluctuations at October 31, 2020:

| <i>(in thousands)</i>                      | <b>Carrying<br/>Value</b> | <b>Carrying<br/>Value<br/>Assuming a<br/>100 BP<br/>Increase</b> | <b>Carrying<br/>Value<br/>Assuming a<br/>100 BP<br/>Decrease</b> |
|--|---------------------------|--|--|
| <b>Debt securities held at fair value:</b> |                           |  |  |
| Held by consolidated sponsored funds       | \$ 180,588                | \$ 182,394   | \$ 178,782   |
| Held through separately managed accounts   | 58,252                    | 58,835   | 57,669   |
| Short-term debt securities                 | 269,802                   | 272,500  | 267,104  |
| <b>Total</b>                               | <b>\$ 508,642</b>         | <b>\$ 513,729</b>  | <b>\$ 503,555</b>  |

Direct exposure to credit risk arises from our interests in non-consolidated CLO entities that are included in investments in our Consolidated Balance Sheets, as well as our interests in consolidated CLO entities that are eliminated in consolidation. Our CLO entity investments entitle us only to a residual interest in the CLO entity, making these investments highly sensitive to the default and recovery experiences of the underlying instruments held by the CLO entity. Our CLO investments are subject to an impairment loss in the event that the cash flows generated by the collateral securities are not sufficient to allow equity holders to recover their investments. If there is deterioration in the credit quality of collateral and reference securities and a corresponding increase in defaults, CLO entity cash flows may be adversely affected and we may be unable to recover our investment. We had total value at risk of \$86.8 million relating to such entities, including investments in non-consolidated CLO entities of \$1.1 million and investments in consolidated CLO entities of \$85.7 million, as of October 31, 2020.

### ***Derivative Financial Instruments***

We have a corporate hedging program in place to hedge currency risk, interest rate risk and market price exposures on certain of our investments in consolidated sponsored funds, separately managed accounts and non-consolidated sponsored funds. As part of this program, we enter into forwards, futures and swap contracts to hedge certain exposures held within these portfolios. The contracts negotiated are short term in nature. We do not enter into derivative instruments for speculative purposes.



The following is a summary of the estimated effect that a 10 percent adverse change in market prices would have on the forwards, futures and swap contracts of our corporate hedging program as of October 31, 2020:

| <i>(in thousands)</i>           | <b>Notional<br/>Value</b> | <b>Decrease in<br/>Fair Value<br/>Assuming a<br/>10% Adverse<br/>Change</b> |
|---------------------------------|---------------------------|---|
| Stock index futures contracts   | \$ 85,474                 | \$ 259  |
| Total return swap contracts     | 87,000                    | 26  |
| Credit default swap contracts   | 18,800                    | 104   |
| Foreign exchange contracts      | 11,492                    | 9   |
| Interest rate futures contracts | 6,985                     | 2   |
| <b>Total</b>                    | <b>\$ 209,751</b>         | <b>\$ 400</b>   |

We are required to maintain cash collateral for margin accounts to support certain derivative positions, which are classified as restricted cash and included as a component of other assets on our Consolidated Balance Sheets. At October 31, 2020, cash collateral included in other assets on our Consolidated Balance Sheet totaled \$12.9 million.

#### ***Foreign Exchange Sensitivity***

We are subject to foreign currency exchange risk through our international operations. While we operate primarily in the United States and, accordingly, most of our consolidated revenue and associated expenses are denominated in U.S. dollars, we also provide services and earn revenue outside of the United States. Revenue and expenses denominated in foreign currencies may be affected by movements in foreign currency exchange rates. The exposure to foreign currency exchange risk in our Consolidated Balance Sheets relates primarily to an equity method investment and cash and cash equivalents that are denominated in foreign currencies, principally Canadian dollars. This risk will likely increase as our business outside of the United States grows. We generally do not use derivative financial instruments to manage the foreign currency exchange risk exposure we assume in connection with investments in international operations. As a result, both positive and negative currency fluctuations against the U.S. dollar may affect our results of operations and accumulated other comprehensive loss. We do not enter into foreign currency transactions for speculative purposes.

## Risk Factors

### Risks Related to the Proposed Merger with Morgan Stanley

On October 7, 2020, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Morgan Stanley (Morgan Stanley), Mirror Merger Sub 1, Inc., a wholly owned subsidiary of Morgan Stanley (Merger Sub 1), and Mirror Merger Sub 2, LLC, a wholly owned subsidiary of Morgan Stanley (Merger Sub 2), pursuant to which (i) Merger Sub 1 will merge with and into Eaton Vance (the First Merger), with Eaton Vance surviving as a wholly owned subsidiary of Morgan Stanley, and (ii) immediately following the completion of the First Merger, the surviving corporation from the First Merger will merge with and into Merger Sub 2 (the Second Merger and, together with the First Merger, the Mergers), with Merger Sub 2 surviving the Second Merger and continuing as a wholly owned direct subsidiary of Morgan Stanley. For more information regarding the proposed Mergers, you can read the information statement/prospectus filed on Form S-4 by Morgan Stanley on December 4, 2020 and the documents incorporated by reference therein and referred to therein under the caption “Where You Can Find More Information.”

***The price of Morgan Stanley Common Stock might decline prior to the completion of the Mergers, which would reduce the value of the Merger Consideration (as defined below) to be received by our shareholders pursuant to the Merger Agreement.*** The market price of Morgan Stanley Common Stock at the time the Mergers are completed may vary significantly from the price on the date of the Merger Agreement. Upon completion of the Mergers, our shareholders will be entitled to receive for each share of Eaton Vance Non-Voting Common Stock and Eaton Vance Voting Common Stock (together, Eaton Vance Common Stock) that they own, at the election of each shareholder, subject to automatic adjustment, consideration in the form of a combination of Morgan Stanley Common Stock and cash (Mixed Consideration), only cash (Cash Consideration) or only Morgan Stanley Common Stock (Stock Consideration) (the consideration such holder elects, the Merger Consideration). The aggregate amount of Merger Consideration payable in cash is fixed at \$28.25 per share of Eaton Vance Common Stock and aggregate amount of Merger Consideration payable in Morgan Stanley Common Stock is fixed at 0.5833 shares of Morgan Stanley Common Stock per Share of Eaton Vance Common Stock. The aggregate amount of Merger Consideration will not be adjusted for changes in the stock prices of either company before the Mergers are completed. Even if an Eaton Vance shareholder elects to receive all cash in the Mergers, the amount of cash to which such shareholder is entitled will depend on the price of Morgan Stanley Common Stock at the time the Mergers are completed. As a result, any changes in the market price of Morgan Stanley Common Stock before the Mergers are completed will have a corresponding effect on the market value of the Merger Consideration received. Neither party has a right to terminate the Merger Agreement based solely (and in and of itself) upon changes in the market price of Morgan Stanley Common Stock or Eaton Vance Non-Voting Common Stock.

***The market price of Morgan Stanley Common Stock after the Mergers will be affected by factors different from those affecting the market price of Eaton Vance Common Stock, and may decline.*** Upon completion of the Mergers, holders of shares of Eaton Vance Common Stock will become holders of shares of Morgan Stanley Common Stock. The businesses of Morgan Stanley differ from our business in important respects; accordingly, the results of operations of Morgan Stanley after the Mergers, as well as the market price of Morgan Stanley Common Stock, will be affected by factors different from those affecting our results of operations.

Additionally, the market price of Morgan Stanley Common Stock may fluctuate significantly following completion of the Mergers, and holders of Eaton Vance Common Stock could lose the value of their investment in Morgan Stanley Common Stock. The issuance of shares of Morgan Stanley Common Stock in the Mergers could on its own have the effect of depressing the market price for Morgan Stanley Common Stock. In

addition, many of our shareholders may decide not to hold the shares of Morgan Stanley Common Stock they receive as a result of the Mergers. Other Eaton Vance shareholders, such as funds with limitations on their permitted holdings of stock in individual issuers, may be required to sell the shares of Morgan Stanley Common Stock they receive as a result of the Mergers. Any such sales of Morgan Stanley Common Stock could have the effect of depressing the market price for Morgan Stanley Common Stock.

Moreover, general fluctuations in stock markets could have a material adverse effect on the market for, or liquidity of, the Morgan Stanley Common Stock, regardless of Morgan Stanley's actual operating performance.

***We may have difficulty attracting, motivating and retaining executives and other employees in light of the Mergers.*** Uncertainty about the effect of the Mergers on our employees may impair our ability to attract, retain and motivate personnel. Employee retention may be particularly challenging during the pendency of the Mergers, as our employees may experience uncertainty about their future roles with the combined business. In addition, pursuant to the terms of the Merger Agreement, upon obtaining Eaton Vance Stockholder Approval (as defined in the Merger Agreement) (which approval was obtained on October 7, 2020), each share of our restricted stock and each restricted stock unit award that was then outstanding vested in full and was settled in unrestricted shares of our Non-Voting Common Stock. The accelerated vesting of restricted stock awards and restricted stock unit awards could result in key employee departures. If our employees depart, the integration of the companies may be more difficult and the combined business following the Mergers may be harmed, and the anticipated benefits of the Mergers may be adversely affected.

***Completion of the Mergers is subject to many conditions; if these conditions are not satisfied or waived, the Mergers will not be completed.*** The obligation of each of Morgan Stanley, Eaton Vance, Merger Sub 1 and Merger Sub 2 to complete the Mergers is subject to the satisfaction (or, to the extent permitted by applicable law, waiver) of a number of conditions, including, among others: (i) the Eaton Vance Stockholder Approval (which approval was obtained on October 7, 2020), (ii) (A) the expiration or termination of any applicable waiting period, or any extension thereof, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act) (in respect of which early termination was granted on November 10, 2020) and (B) certain governmental filings and/or approvals having been made, obtained or received (or the waiting periods with respect thereto having expired or been terminated), as applicable (in the case of Morgan Stanley's, Merger Sub 1's and Merger Sub 2's obligations to complete the Mergers, without the imposition of a requirement that Morgan Stanley or any of its subsidiaries (including Eaton Vance or our subsidiaries) take any action or comply with any restriction that Morgan Stanley would not be required to take or comply with under the applicable provisions of the Merger Agreement and there being no pending litigation or similar legal action by any governmental authority in each case that seeks to impose a requirement that Morgan Stanley or any of its subsidiaries (including Eaton Vance or our subsidiaries) take any action or comply with any restriction that Morgan Stanley would not be required to take or comply with under the applicable provisions of the Merger Agreement), (iii) absence of (x) any applicable law or order preventing or making illegal the consummation of the Mergers or any of the other transactions contemplated by the Merger Agreement and (y) any litigation or similar legal action by any governmental authority (in any jurisdiction in which Morgan Stanley, Eaton Vance or any of our respective subsidiaries conducts material operations) seeking to prohibit or restrain the Mergers, (iv) approval for the listing on the NYSE of the shares of Morgan Stanley Common Stock to be issued in the Mergers, subject to official notice of issuance, (v) in the case of Morgan Stanley's, Merger Sub 1's and Merger Sub 2's obligations to complete the Mergers, the accuracy of the representations and warranties made in the Merger Agreement by us and, in the case of our obligation to complete the Merger, the accuracy of the representations and warranties made in the Merger Agreement by Morgan Stanley, in each case, as of the date of the Merger Agreement and as of the date of completion of the Mergers, subject to certain materiality thresholds, (vi) in the case of Morgan Stanley's, Merger Sub 1's and Merger Sub 2's obligations to complete the

Mergers, performance in all material respects by us of the obligations required to be performed by us at or prior to the effective time of the First Merger, and, in the case of our obligation to complete the Mergers, performance in all material respects by Morgan Stanley, Merger Sub 1 and Merger Sub 2 of the obligations required to be performed by them at or prior to the effective time of the First Merger, (vii) in the case of Morgan Stanley's, Merger Sub 1's and Merger Sub 2's obligations to complete the Mergers, the absence since the date of the Merger Agreement of a material adverse effect on us, and, in the case of our obligation to complete the Mergers, the absence since the date of the Merger Agreement of a material adverse effect on Morgan Stanley, (viii) the receipt by Morgan Stanley of an opinion of Davis Polk, counsel to Morgan Stanley, to the effect that the Mergers, taken together as an integrated transaction, will be treated for United States federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the U.S. Internal Revenue Code of 1986, as amended (the Code), which opinion shall be dated the closing date; provided that if Davis Polk does not render such opinion for any reason, this condition will nonetheless be satisfied if a third party nationally recognized law or accounting firm as reasonably agreed by Morgan Stanley and us renders such opinion to Morgan Stanley, (ix) the receipt by us of an opinion of WilmerHale, counsel to Eaton Vance, to the effect that the Mergers, taken together as an integrated transaction, will be treated for United States federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code, which opinion shall be dated the closing date; provided that if WilmerHale does not render such opinion for any reason, this condition will nonetheless be satisfied if a third party nationally recognized law or accounting firm as reasonably agreed by Morgan Stanley and us renders such opinion to us and (x) our obtaining the consent of our clients generating an aggregate management fee revenue run-rate of at least 80% of our aggregate management fee revenue run-rate as of September 30, 2020.

There can be no assurance that the conditions to the closing of the Mergers will be satisfied or waived or that the Mergers will be completed.

***Our business relationships may be subject to disruption due to uncertainty associated with the Mergers.***

Parties with which we do business may experience uncertainty associated with the Mergers, including with respect to current or future business relationships with Eaton Vance or the combined business. Our business relationships may be subject to disruption as parties with which we do business may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than Eaton Vance or the combined business. These disruptions could have an adverse effect on the parties' ability to complete the Mergers and the businesses, financial condition, results of operations or prospects of the combined business following in the Mergers, including an adverse effect on the ability to realize the anticipated benefits of the Mergers. The risk, and adverse effect, of such disruptions could be exacerbated by a delay in completion of the Mergers or termination of the Merger Agreement.

***Failure to complete the Mergers could adversely affect our stock price and future business and financial results.*** If the Mergers are not completed for any reason, the expected merger benefits will not be realized and our ongoing business may be adversely affected. Failure to complete the Mergers would subject us to a number of risks, including the following:

- we may experience adverse reactions from the financial markets, including negative effects on our stock price;
- we may experience adverse reactions from clients, regulators and employees;
- we will be required to pay certain costs relating to the Mergers, whether or not the Mergers are completed;
- the Merger Agreement places certain restrictions on the conduct of our business prior to completion of the Mergers, and such restrictions, the waiver of which are subject to the written consent of Morgan Stanley (in certain cases, not to be unreasonably withheld, conditioned or

delayed), and subject to certain exceptions and qualifications, may prevent us from making certain acquisitions, taking certain other specified actions or otherwise pursuing business opportunities during the pendency of the Mergers that we would have made, taken or pursued if these restrictions were not in place; and

- matters relating to the Mergers (including integration planning) will require substantial commitments of time and resources by our management, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to us as an independent company.

In the event of a termination of the Merger Agreement under certain circumstances specified in the Merger Agreement, we may be required to pay a termination fee of \$206 million to Morgan Stanley. To the extent that a termination fee is not promptly paid when due, we will also be required to pay any reasonable and documented costs and expenses (including reasonable legal fees and expenses) incurred by Morgan Stanley in connection with legal action taken to enforce the Merger Agreement that results in a judgment for such amount against us for failing to promptly pay such amount, together with interest on the unpaid fee.

There can be no assurance that the risks described above will not materialize. If any of those risks materialize, they may materially and adversely affect our business, financial condition, financial results, ratings, stock price and/or bond prices.

In addition, we could be subject to litigation related to any failure to complete the Mergers or related to any legal proceeding commenced against us to perform our obligations under the Merger Agreement. If the Mergers are not completed, these risks may materialize and may adversely affect our business, financial condition, financial results, debt ratings, stock price and/or market trading prices of our outstanding debt.

***The shares of Morgan Stanley Common Stock to be received by our shareholders upon completion of the Mergers will have different rights from shares of Eaton Vance Common Stock.*** Upon completion of the Mergers, our shareholders will no longer be shareholders of Eaton Vance but will instead become shareholders of Morgan Stanley. Our shareholders' rights as shareholders will, after completion of the Mergers, be governed by Delaware law (rather than Maryland law) and the terms of Morgan Stanley's amended and restated certificate of incorporation and amended and restated bylaws are in some respects materially different than the terms of our amended and restated articles of incorporation and amended and restated bylaws, which currently govern the rights of our shareholders.

***Our stockholders may receive a form or combination of consideration different from what they elect.*** While each holder of Eaton Vance Common Stock entitled to the Merger Consideration may elect to receive, in connection with the Mergers, the Mixed Consideration, Cash Consideration or Stock Consideration, the total amount of cash and the total number of shares of Morgan Stanley Common Stock available for all Eaton Vance shareholders will be fixed. Accordingly, depending on the elections made by other Eaton Vance shareholders, a holder of Eaton Vance Common Stock that elects to receive all cash in connection with the Mergers may receive a portion of the Merger Consideration in Morgan Stanley Common Stock and a holder of Eaton Vance Common Stock that elects to receive all Morgan Stanley Common Stock in connection with the Mergers may receive a portion of the Merger Consideration in cash.

#### **Risks Related to the Management of Our Business**

***We are subject to substantial competition in all aspects of our investment management business.*** Our funds and separate accounts compete against a large number of investment strategies and services sold to the public

by investment management companies, broker-dealers, registered investment advisors, banks, insurance companies and others. Many institutions we compete against have greater financial resources than us, and there are few barriers to entry. We compete with these firms on the basis of investment performance, diversity of offerings, distribution capability, scope and quality of services, reputation and the ability to develop new investment strategies and services to meet the changing needs of investors. To the extent that current or potential customers decide to invest in strategies sponsored by our competitors, the sales of our sponsored strategies, as well as our market share, revenue and net income, could decline. Our actively managed investment strategies compete not only against other active strategies, but also against similarly positioned index strategies. The continuing shift in market demand toward index funds and other passive strategies reduces opportunities for active managers and may accelerate fee compression as active managers reduce their fees to compete with lower-cost passive strategies. To the extent that trend continues, our business could be adversely affected.

The investment management industry is highly competitive and investment management customers are increasingly fee sensitive. In the event that competitors charge lower fees for substantially similar strategies and services, we may be forced to compete increasingly on the basis of price to attract and retain customers. Rules and regulations applicable to Registered Funds provide, in substance, that each investment advisory agreement between a fund and its investment adviser continues in effect from year to year only if its continuation is approved at least annually by the fund's board of trustees. Periodic review of fund advisory agreements could result in a reduction in our advisory fee revenues from Registered Funds. Fee reductions on existing or future strategies and services could have an adverse impact on our revenue and net income.

***The inability to access clients through intermediaries could have a material adverse effect on our business.***

Our ability to market investment strategies and services is highly dependent on access to registered investment advisors and the distribution systems of national and regional broker-dealer firms, which generally offer competing strategies and services that could limit the distribution of our offerings. There can be no assurance that we will be able to retain access to these intermediaries. Losing such access could have a material adverse effect on our business. To the extent that existing or potential customers, including registered investment advisors and securities broker-dealers, decide to invest in or broaden distribution relationships with our competitors, the sales of our strategies and services, as well as our market share, revenue and net income, could decline. Certain intermediaries with which we conduct business charge us fees to maintain access to their distribution networks. If we choose not to pay such fees, our ability to distribute our strategies and services through those intermediaries would be limited.

***Our investment advisory agreements are subject to termination on short notice or non-renewal.*** We derive almost all of our revenue from management fees, distribution income and service fees received from managed funds and separate accounts. As a result, we are dependent upon management contracts, administrative contracts, distribution contracts, underwriting contracts and/or service contracts under which these fees are paid. Generally, these contracts are terminable upon 30 to 60 days' notice without penalty. If material contracts are terminated, not renewed or amended to reduce fees, our financial results could be adversely affected.

***Our assets under management, which affect revenue, are subject to significant fluctuations.*** Our major sources of revenue, including investment advisory, administrative, distribution and service fees, are generally calculated as percentages of assets under management. Fee rates for our investment strategies and services generally vary by investment mandate (e.g., equity, fixed income, floating-rate income, alternative, portfolio implementation or exposure management services) and investment vehicle (e.g., fund or separate account). An adverse change in asset mix by mandate or vehicle, independent of our level of assets under management,

may result in a decrease in our overall average effective fee rate. Any decrease in the level of our assets under management generally would reduce our revenue and net income. Assets under management could decrease due to, among other things, a decline in securities prices, a decline in the sales of our investment offerings, an increase in open-end fund redemptions or client withdrawals, repurchases of, or other reductions in, closed-end fund shares outstanding, or reductions in leverage used by investment vehicles. Adverse market conditions and/or lack of investor confidence in the financial markets could lead to a decrease in investor risk tolerance. A decrease in investor risk tolerance could result in investors withdrawing from markets or decreasing their rate of investment, thereby reducing our overall assets under management and adversely affecting our revenue, earnings and growth prospects. Changes in investor risk tolerance could also result in investor allocation away from higher-fee strategies to lower-fee strategies, which could adversely affect our revenue and earnings. Our overall assets under management may not change in tandem with overall market conditions, as changes in our assets under management may lag improvements or declines in the overall market due to mix effects and investment performance.

***Poor investment performance of the assets we manage could affect our sales or reduce the amount of assets under management, adversely affecting revenue and net income.*** The performance of the assets we manage is critical to our success. Poor investment performance on an absolute basis or as compared to third-party benchmarks or competitors could lead to a decrease in sales and stimulate higher redemptions, thereby lowering the amount of assets under management and reducing the investment advisory fees we earn. A decline in investment performance of any investment franchise could have a material adverse effect on the level of assets under management, revenue and net income of that franchise. Past or present performance in the investment strategies we manage is not indicative of future performance.

***Our clients can withdraw the assets we manage on short notice, making our future client and revenue base unpredictable.*** Our open-end fund clients generally may redeem their investments in these funds each business day without prior notice. Institutional and individual separate account clients can terminate their relationships with us generally at any time. In a declining stock market, the pace of open-end fund redemptions and separate account withdrawals or terminations could accelerate. Poor performance of the assets we manage relative to other asset management firms could result in lower purchases and increased redemptions of open-end fund shares, and the loss of institutional and individual separate accounts. While not subject to daily redemption, closed-end funds that we advise may shrink in size due to repurchases of shares in open-market transactions or pursuant to tender offers, or in connection with distributions in excess of realized returns. Activist shareholders have through various means sought, and may continue to seek, to force certain closed-end funds for which we serve as investment adviser to conduct a share tender offer, convert to an open-end fund, liquidate or take other actions that would reduce or eliminate the fees we receive for managing such funds. A decrease in revenue that could result from any of these events could have a material adverse effect on our business.

***We could be adversely affected by counterparty or client defaults.*** As we have seen in periods of significant market volatility, the deteriorating financial condition of a single financial institution may materially and adversely affect the performance of others. We, and the funds and accounts we manage, have exposure to many different counterparties and routinely execute transactions with counterparties across the financial industry. We, and the funds and accounts we manage, may be exposed to credit, operational or other risk in the event of a default by a counterparty or client, or in the event of other unrelated systemic market failures.

***The COVID-19 pandemic may continue to have a material adverse effect on our business, results of operations, cash flows and financial condition.*** The ongoing COVID-19 pandemic has caused significant disruption in global financial markets and adversely affected our business. During the second quarter of fiscal

2020, we experienced a decline in our assets under management, revenue and earnings due to market price declines and net outflows driven by investor uncertainty related to the pandemic. While financial markets and our flow trends have since substantially recovered, the COVID-19 pandemic continues to significantly affect the manner in which we operate our business. While we have in place business continuity plans that address potential impacts of the COVID-19 pandemic to our personnel and our facilities, and technologies that enable our personnel to work effectively from home, no assurance can be given that the steps we have taken will continue to be effective or appropriate. While our employees have to date been able to continue conducting business while working remotely, operational challenges may arise in the future, which may reduce our organizational efficiency or effectiveness, and increase operational, compliance and cybersecurity risks. In addition, because most of our employees have not previously worked remotely for an extended period of time, we are unsure of the impact that the remote work environment and lack of in-person meetings with colleagues, clients and business partners will have on the growth of our business and the results of our operations over the long term. Many of the key service providers we rely on also have transitioned to working remotely. If we or they were to experience material disruptions in the ability of our or their employees to work remotely (e.g., from illness due to COVID-19 or disruption in internet-based communication systems and networks), our ability to operate our business could be materially adversely disrupted. Any such material adverse disruptions to our business operations could have a material adverse impact on our results of operations, cash flows or financial condition.

The extent to which our business, results of operations, cash flows and financial results are affected by the COVID-19 pandemic in the future will largely depend on future developments that cannot be accurately predicted and are uncertain, including the duration and severity of the pandemic and the length of time until the economy recovers and our employees can safely return to the workplace. In addition, many of the other risk factors described herein are heightened by the effects of the COVID-19 pandemic and related economic conditions, which could result in a material adverse effect on our business, results of operations, cash flows or financial condition.

***Failure to maintain adequate infrastructure could impede our productivity and ability to support business growth.*** Our infrastructure, including our technological capacity, data centers and office space, is vital to the operations and competitiveness of our business. The failure to maintain an infrastructure commensurate with the size and scope of our business, including any expansion, could impede our productivity and growth, which could result in a decline in our earnings.

***Failure to maintain adequate business continuity plans could have a material adverse impact on us and the investment strategies and services we offer.*** Significant portions of our business operations and those of our critical third-party service providers are concentrated in a few geographic areas, including Boston, Massachusetts and Seattle, Washington. Critical operations that are geographically concentrated in Boston and/or Seattle include trading operations, information technology, fund administration, and custody and portfolio accounting services for our investment offerings. Should we, or any of our critical service providers, experience a significant local or regional disaster or other business continuity problem, our continued success will depend in part on the safety and availability of our personnel, our office facilities and the proper functioning of our computer, telecommunication and other related systems and operations. The failure by us, or any of our critical service providers, to maintain updated adequate business continuity plans, including backup facilities, could impede our ability to operate in the event of a disruption, which could cause our earnings to decline. We have developed various backup systems and contingency plans but cannot be assured that they will be adequate in all circumstances that could arise, or that material disruptions will not occur. In addition, we rely to varying degrees on outside vendors for disaster contingency support, and we cannot be assured that these vendors will be able to perform in an adequate and timely manner. If we, or any of our



critical service providers, are unable to respond adequately to such an event in a timely manner, we may be unable to continue our business operations, which could lead to a damaged reputation and loss of customers that results in a decrease in assets under management, lower revenues and reduced net income.

***We have pursued growth in the United States and abroad in part through acquisitions, which exposes us to risks inherent in assimilating new operations, expanding into new jurisdictions and executing on new development opportunities.*** Our growth strategy has included the acquisition of asset management businesses that we believe will add value to our business and generate positive net returns. This strategy may not be effective, and failure to successfully develop and execute such a strategy may decrease earnings and harm our competitive position. We cannot guarantee that we will identify and consummate any such transactions on acceptable terms or have sufficient resources to accomplish such a strategy. In addition, any strategic transaction can involve a number of risks, including additional demands on our staff; unanticipated problems regarding integration of operating facilities, technologies and new employees; and the existence of liabilities or contingencies not disclosed to or otherwise known by us prior to closing a transaction. As a result, we may not be able to realize net benefits from such transactions. In addition, we may be required to spend additional time or money on integration that would otherwise be spent on the development of our business.

***Expansion into international markets and the introduction of new investment strategies and services increases our operational, regulatory and other risks.*** We continue to increase the scope of our investment offerings and the scale of our international business activities. As a result, we face increased operational, regulatory, compliance and reputational risks. The failure of our compliance and internal control systems to properly mitigate such additional risks, or of our operating infrastructure to support such expansion, could result in operational failures and regulatory fines or sanctions. Our operations in the U.K., the E.U., Australia, Singapore and other jurisdictions are subject to significant compliance, disclosure and other obligations. We incur additional costs to satisfy the requirements of the E.U. Directive on UCITS and other E.U. directives (together, the E.U. Directives). Compliance requirements relating to the E.U. Directives may also limit our operating flexibility and affect our ability to expand in European markets. Activity in international markets also exposes us to fluctuations in currency exchange rates, which may adversely affect the U.S. dollar value of revenues, expenses and assets associated with our business activities outside the United States. Actual and anticipated changes in current exchange rates may also adversely affect international demand for our investment strategies and services, most of which represent investments primarily in U.S. dollar-based assets. Because certain of our costs to support international business activities are based in local currencies, the profitability of such activities in U.S. dollar terms may be adversely affected by a weakening of the U.S. dollar versus other currencies in which we derive significant revenues.

On January 31, 2020, the U.K. withdrew from the E.U. (Brexit), with a transition period lasting until December 31, 2020. During the transition period, existing arrangements between the U.K. and the E.U. have remained in place while the U.K. and the E.U. seek to negotiate a free trade agreement that will govern the trading relationship between the U.K. and the E.U. following the transition period. The impact of Brexit on our business operations in the U.K. and Europe remains uncertain, and will vary depending on the future terms of trade between the U.K. and the E.U. Ongoing changes in the E.U.'s regulatory framework applicable to our operations, including Brexit as well as any other changes in the composition of the E.U.'s member states, may add additional complexity to our global operations, impede expansion and/or impose additional risks.

***We may not manage risks associated with the replacement of financial benchmarks effectively.*** The withdrawal and replacement of widely used financial benchmarks such as the London Interbank Offered Rate (LIBOR) with alternative benchmarks introduces a number of risks for us, our clients and the financial services industry more widely. These include legal implementation risks, as extensive changes to documentation for

new and existing clients and transactions may be required; financial risks arising from any changes in the valuation of financial instruments linked to benchmarks; pricing risks, as changes to benchmarks could impact pricing mechanisms on some instruments; operational risks, due to the potential requirement to adapt information technology systems, trade reporting infrastructure and operational processes; and relationship risks, relating to client communications and engagement during the transition away from LIBOR or other financial benchmarks currently utilized.

The FCA, which regulates LIBOR, has announced that it has commitments from panel banks to continue to contribute to LIBOR through the end of calendar 2021, but that the FCA will not use its powers to compel contributions beyond that date. Accordingly, there is considerable uncertainty regarding the publication of LIBOR beyond 2021. While it is not currently possible to determine precisely whether, or to what extent, the withdrawal and replacement of LIBOR would affect us, the implementation of alternative benchmark rates to LIBOR may have an adverse effect on our business, results of operations or financial condition.

***Our success depends on key personnel, and our financial performance could be negatively affected by the loss of their services.*** Our success depends upon our ability to attract, retain and motivate qualified portfolio managers, analysts, investment counselors, sales and management personnel, and other key professionals, including our executive officers. Our key employees generally do not have employment contracts and may voluntarily terminate their employment at any time. Certain senior executives and the non-employee members of our Board of Directors are subject to our mandatory retirement policy at age 65 and age 74, respectively. In addition, pursuant to the terms of the Merger Agreement, upon obtaining Eaton Vance Stockholder Approval (which approval was obtained on October 7, 2020), each share of our restricted stock and each restricted stock unit award that was then outstanding vested in full and was settled in unrestricted shares of our Non-Voting Common Stock. The accelerated vesting of restricted stock awards could result in key employee departures. The loss of the services of key personnel or our failure to attract replacement or additional qualified personnel could negatively affect our financial performance. An increase in compensation to attract or retain personnel could result in a decrease in net income.

***Our expenses are subject to fluctuations that could materially affect our operating results.*** Our results of operations are dependent on our level of expenses, which can vary significantly from period to period. Our expenses may fluctuate as a result of, among other things, variations in the level of compensation, expenses incurred to support distribution of our investment strategies and services, expenses incurred to develop new strategies and services, expenses incurred to enhance our technology, compliance and other infrastructure, impairments of intangible assets or goodwill, and the impact of inflation. Increases in our level of expenses, or our inability to reduce our level of expenses when necessary, could materially affect our operating results.

***Our business is subject to operational risk.*** We are subject to the risk that we commit management or administration errors that cause us to incur financial losses and damage our reputation. Our customized separate account and exposure management services businesses may be particularly susceptible to losses from operational or trading errors because they involve large numbers of accounts and operate at generally low fee rates. In addition, our operations are dependent upon services and information from third parties, and operations problems at such third parties could materially affect our business. Many of the risks described herein, including those related to operations, cyber security, business continuity, international operations and legal and regulatory developments, also apply to the activities of the third parties with which we do business.

***Our reputation could be damaged.*** We have built a reputation of high integrity, prudent investment management and superior client service. Our reputation is extremely important to our success. Any damage to our reputation could result in client withdrawals from funds or separate accounts that we manage and impede

our ability to attract and retain key personnel. The loss of either client relationships or key personnel due to damage to our reputation could reduce the amount of assets we manage and cause us to suffer a loss in revenue and a reduction in net income. Increasingly, we must manage actual and potential conflicts of interest, including situations where our services to a particular client conflict, or are perceived to conflict, with the interests of another client or our affiliates. Failure to adequately address or disclose actual and/or potential conflicts of interest could adversely affect our reputation, results of operations and business prospects.

***Our business may be negatively affected by adverse business decisions or our failure to properly implement or execute strategic programs and priorities.*** In order to maintain and grow our business, we must continuously make strategic decisions about our current and future business plans, including plans to target cost initiatives and enhance operational processes and efficiencies, to improve existing and to develop new service offerings and enhancements, to enter or exit business lines or geographic markets, to acquire or dispose of businesses, to build new systems, to migrate from existing systems and infrastructure, and to address staffing needs.

***Support provided to developing new strategies and services may reduce fee income, increase expenses and expose us to potential loss on invested capital.*** We may support the development of new investment offerings by waiving all or a portion of the fees we receive, by subsidizing expenses or by making seed capital investments. Seed investments utilize Company capital that would otherwise be available for general corporate purposes and expose us to capital losses to the extent that realized investment losses are not offset by hedging gains. The risk of loss may be greater for seed capital investments that are not hedged, or if an intended hedge does not perform as expected. Failure to have or devote sufficient capital to support new investment offerings could have an adverse impact on our future growth.

***We may need to raise additional capital or refinance existing debt in the future, and resources may not be available to us in sufficient amounts or on acceptable terms.*** Significant future demands on our capital include contractual obligations to service our debt and satisfy the terms of non-cancellable operating leases as described more fully under Contractual Obligations in Management's Discussion and Analysis of Financial Condition and Results of Operations within this Annual Report and in Note 9, Leases, in Notes to Consolidated Financial Statements within this Annual Report. Although we believe our existing liquid assets, cash flows from operations and borrowing capacity under our credit facility are sufficient to meet our current and forecasted operating cash needs, our ability to satisfy our long-term contractual obligations may be dependent on our ability to access capital markets. Our ability to access capital markets efficiently depends on a number of factors, including the state of global credit and equity markets, interest rates, credit spreads and our credit ratings. If we are unable to access capital markets to issue new debt, refinance existing debt or sell shares of our Non-Voting Common Stock as needed, or if we are unable to obtain such financing on acceptable terms, our business could be adversely affected.

***We could be subject to losses and reputational harm if we, or our agents, fail to properly safeguard sensitive and confidential information or as a result of cyber attacks.*** We are dependent on the effectiveness of our information and cyber security policies, procedures and capabilities, and those of third parties with which we do business, to protect our and their computer and telecommunications systems and the data that resides in, or is transmitted through, such systems. As part of our normal operations, we maintain and transmit confidential information about our clients and employees as well as proprietary information relating to our business operations. We maintain a system of internal controls designed to provide reasonable assurance that fraudulent activity, including misappropriation of assets, fraudulent financial reporting and unauthorized access to sensitive or confidential data, is either prevented or detected on a timely basis. Nevertheless, all

technology systems remain vulnerable to unauthorized access and may be corrupted by cyber attacks, computer viruses or other malicious software code, the nature of which threats are constantly evolving and becoming increasingly sophisticated. In addition, authorized persons could inadvertently or intentionally release confidential or proprietary information. Although we take precautions to password protect and encrypt our mobile electronic hardware, if such hardware is stolen, misplaced or left unattended, it may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly actions by us. Breach or other failure of our technology systems, including those of third parties with which we do business, or failure to timely and effectively identify and respond to any such breach or failure, could result in the loss of valuable information, liability for stolen assets or information, remediation costs to repair damage caused by the incident, additional security costs to mitigate against future incidents and litigation costs resulting from the incident. In addition, our increased use of mobile and cloud technologies, including as a result of the shift to work-from-home arrangements as a result of the COVID-19 pandemic, has heightened these and other operational risks, and any failure by our mobile or cloud technology service providers to adequately safeguard the systems we use and prevent or quickly detect and remediate cyber attacks could disrupt our operations and result in misappropriation, corruption or loss of confidential or proprietary information. Moreover, the loss of confidential customer identification information could harm our reputation, result in the termination of contracts by our existing customers and subject us to liability under state, federal and international laws that protect confidential personal data, resulting in increased costs, loss of revenues and substantial penalties. In 2018, the E.U. significantly increased the potential penalties for noncompliance with requirements for the handling and maintenance of personal and sensitive data concerning customers and employees. Our failure to comply with these requirements could result in penalties of up to four percent of our global revenues, regulatory action and reputational risk. The recently enacted California Consumer Privacy Act (CCPA), which took effect in January 2020, provides for enhanced consumer protections for California residents and statutory fines for data security breaches or other CCPA violations. Recent well-publicized security breaches at other companies have led to enhanced government and regulatory scrutiny of the measures taken by companies to protect against cyber attacks, and may in the future result in heightened cyber security requirements, including additional regulatory expectations for oversight of vendors and service providers.

## **Risks Relating to the Regulation of Our Business**

***Legal and regulatory developments affecting the investment industry could increase our regulatory costs and/or reduce our revenues.*** Our business is subject to complex and extensive regulation by various regulatory authorities in jurisdictions around the world. This regulatory environment may be altered without notice by new laws or regulations, revisions to existing regulations or new interpretations or guidance. Global financial regulatory reform initiatives may result in more stringent regulation, and changes in laws or regulations and their application to us could have a material adverse impact on our business, our profitability and mode of operations. In recent years, regulators in both the United States and abroad have increased oversight of the financial sector of the economy. Some of the newly adopted and proposed regulations are focused directly on the investment management industry, while others apply more broadly, but affect our industry. It is uncertain how regulatory trends will be affected by current and future political developments.

Under a final rule and interpretive guidance issued by FSOC, certain non-bank financial institutions have been designated for the Federal Reserve's supervision as SIFIs. Additional non-bank financial companies, which may include large asset management companies such as us, may be designated as SIFIs in the future. Currently, there are no non-bank financial companies with a SIFI designation. If we are designated a SIFI, we would be subject to enhanced prudential measures, which could include capital and liquidity requirements, leverage limits, enhanced public disclosures and risk management requirements, annual stress testing by the Federal

Reserve, credit exposure and concentration limits, supervisory and other requirements that could, individually, or in the aggregate, adversely affect our business and operations.

EVM, Parametric and BMR are registered with the CFTC and the NFA as Commodity Pool Operators and Commodity Trading Advisors; other subsidiaries of the Company claim exemptions from registration. The CFTC generally allows operators of registered mutual funds that are subject to registration as Commodity Pool Operators to comply with SEC disclosure, reporting and recordkeeping rules as the means of complying with CFTC's similar requirements. These CFTC rules do not, however, relieve registered Commodity Pool Operators from compliance with applicable anti-fraud provisions or certain performance reporting and recordkeeping requirements. The Company incurs ongoing costs associated with monitoring compliance with these requirements, including, but not limited to, CFTC and NFA registration and exemption obligations and the periodic reporting requirements of Commodity Pool Operators and Commodity Trading Advisors.

The regulation of derivatives markets has undergone substantial change in recent years and such change may continue. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and regulations promulgated thereunder require many derivatives to be cleared and traded on an exchange, expand entity registration requirements, impose business conduct requirements on counterparties and impose other regulatory requirements that will continue to change derivative markets as regulations are implemented. Additional regulation of the derivatives markets, including new Rule 18f-4 under the 1940 Act adopted in October 2020, may make the use of derivatives more costly, may limit the availability or reduce the liquidity of derivatives, and may impose limits or restrictions on the counterparties to derivative transactions.

Certain of our subsidiaries are required to file quarterly reports on Form PF for private funds they manage, pursuant to systemic risk reporting requirements adopted by the SEC. These filings require significant investments in people and systems to ensure timely and accurate reporting. Further investment will be necessary as we implement rules adopted by the SEC in 2016 that amended Form ADV and established Form N-PORT to require additional reporting for the separate accounts and Registered Funds we manage, respectively.

In Europe, the revised Markets in Financial Instruments Directive (MiFID II Directive) and the Markets in Financial Instruments Regulation (MiFIR) (collectively, MiFID II) took effect in January 2018. Implementation of MiFID II significantly affects the structure and operation of the E.U. financial markets and our European operations. Some of the main changes introduced by MiFID II include: (1) enhancing business conduct and governance requirements; (2) broadening the scope of pre- and post-trade transparency; (3) enhancing disclosure requirements; (4) increasing transaction reporting requirements; (5) revising the relationship between client commissions and investment research services; and (6) further regulating trading revenue.

All of these new and developing laws and regulations have resulted in, and will likely continue to result in, greater compliance and administrative burdens on us, increasing our expenses.

***We could be adversely affected by changes in tax laws.*** Changes in U.S. tax policy may affect us to a greater degree than many of our competitors because we manage significant assets in funds and separate accounts with an after-tax return objective. Future changes in tax laws, including as a result of changes proposed by the new incoming Presidential administration, or tax rulings could also materially affect our effective tax rate. In particular, the reduction in the corporate income tax rate resulting from the Tax Cuts and Jobs Act enacted into U.S. law in December 2017 (2017 Tax Act) could be reduced or rescinded by future tax law changes. While increasing our effective tax rate, an increase in future tax rates would also cause the carrying value of our deferred tax assets at the time of enactment to be increased.

**Exposure to additional tax liabilities could have a material impact on our financial condition, results of operations and/or liquidity.** We are subject to ongoing tax audits in various jurisdictions, including several states. We regularly assess the likely outcomes of these audits to determine the appropriateness of our tax provision. There can be no assurance that we will accurately predict the outcomes of these audits, which could have a material impact on our financial statements.

**Our business is subject to risk from legal and regulatory proceedings.** We are subject to federal securities laws, state laws regarding securities fraud, other federal and state laws and rules, and regulations of certain regulatory, self-regulatory and other organizations, including, among others, the SEC, FINRA, the CFTC, the NFA and the New York Stock Exchange. We are also subject to substantial legal and regulatory requirements in the U.K., E.U., Singapore, Japan and other jurisdictions in which we operate outside the U.S. While we have focused significant attention and resources on the development and implementation of compliance policies, procedures and practices, non-compliance with applicable laws, rules or regulations, either in the U.S. or abroad, or our inability to adapt to a complex and ever-changing regulatory environment could result in sanctions against us, which could adversely affect our reputation, business, revenue and earnings. From time to time, various claims or potential claims against us arise, including employment-related claims.

We carry insurance in amounts and under terms that we believe are appropriate. We cannot guarantee that our insurance will cover most liabilities and losses to which we may be exposed, or that our insurance policies will continue to be available at acceptable terms and fees. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As our insurance policies come up for renewal, we may need to assume higher deductibles or pay higher premiums, which would increase our expenses and reduce our net income.

### **Risks Relating to Owning Our Non-Voting Common Stock**

**Our Non-Voting Common Stock lacks voting rights.** Our Non-Voting Common Stock has no voting rights under any circumstances. All voting power resides with our Voting Common Stock, all shares of which are held by officers of the Company and its subsidiaries. All the shares of our Voting Common Stock are deposited in a voting trust (Voting Trust) in exchange for Voting Trust Receipts that entitle the holder to receive the dividends paid on the Voting Common Stock he or she has deposited. As of October 31, 2020, there were 25 holders of Voting Trust Receipts representing Voting Common Stock, each holder of which is a Voting Trustee of the Voting Trust. Holders of Non-Voting Common Stock should understand that such ownership interests have no ability to vote in the election of the Company's Board of Directors and no right to direct the Company's management and strategy. On October 7, 2020, the Voting Trust approved and adopted the Merger Agreement under which Morgan Stanley has agreed to acquire the Company, subject to the satisfaction of closing conditions. The exclusion of our Non-Voting Common Stock from stock market indexes, whether as a result of our dual-class capitalization or any other reason, could have an adverse impact on the trading price of our Non-Voting Common Stock.

### **Evaluation of Disclosure Controls and Procedures**

We evaluated the effectiveness of our disclosure controls and procedures as of October 31, 2020. Disclosure controls and procedures are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the

reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), to allow timely decisions regarding required disclosure. Our CEO and CFO participated in this evaluation and concluded that, as of October 31, 2020, our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting that occurred during the fourth quarter of our fiscal year ended October 31, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal control over financial reporting from the COVID-19 pandemic despite the fact that most of our employees are working remotely.

## Consolidated Statements of Income

| <i>(in thousands, except per share data)</i>   | Years Ended October 31, |                   |                   |
|--|-------------------------|-------------------|-------------------|
|  | 2020                    | 2019              | 2018              |
| <b>Revenue:</b>  |                         |                   |                   |
| Management fees  | \$ 1,514,388            | \$ 1,463,943      | \$ 1,459,186      |
| Distribution and underwriter fees  | 77,056                  | 85,612            | 97,371            |
| Service fees   | 131,724                 | 123,073           | 122,231           |
| Other revenue  | 7,197                   | 10,624            | 13,634            |
| <b>Total revenue</b>   | <b>1,730,365</b>        | <b>1,683,252</b>  | <b>1,692,422</b>  |
| <b>Expenses:</b>   |                         |                   |                   |
| Compensation and related costs   | 793,681                 | 626,513           | 604,631           |
| Distribution expense   | 141,170                 | 150,239           | 165,033           |
| Service fee expense  | 115,211                 | 107,762           | 106,831           |
| Amortization of deferred sales commissions   | 24,986                  | 22,593            | 18,394            |
| Fund-related expenses  | 42,441                  | 40,357            | 37,602            |
| Other expenses   | 238,636                 | 214,917           | 204,729           |
| <b>Total expenses</b>  | <b>1,356,125</b>        | <b>1,162,381</b>  | <b>1,137,220</b>  |
| Operating income   | 374,240                 | 520,871           | 555,202           |
| <b>Non-operating income (expense):</b>   |                         |                   |                   |
| Gains and other investment income, net   | 3,243                   | 51,040            | 10,066            |
| Interest expense   | (23,940)                | (23,795)          | (23,629)          |
| Other income (expense) of consolidated collateralized<br>loan obligation (CLO) entities: |                         |                   |                   |
| Gains and other investment income, net   | 36,123                  | 70,272            | 16,882            |
| Interest and other expense   | (55,201)                | (59,350)          | (15,286)          |
| <b>Total non-operating income (expense)</b>  | <b>(39,775)</b>         | <b>38,167</b>     | <b>(11,967)</b>   |
| Income before income taxes and equity in net income of affiliates                        | 334,465                 | 559,038           | 543,235           |
| Income tax expense   | (83,900)                | (135,252)         | (156,703)         |
| Equity in net income (loss) of affiliates, net of tax                                    | (117,231)               | 9,090             | 11,373            |
| Net income   | 133,334                 | 432,876           | 397,905           |
| Net (income) loss attributable to non-controlling and other beneficial interests         | 5,182                   | (32,841)          | (15,967)          |
| <b>Net income attributable to Eaton Vance Corp. shareholders</b>                         | <b>\$ 138,516</b>       | <b>\$ 400,035</b> | <b>\$ 381,938</b> |
| <b>Earnings per share:</b>   |                         |                   |                   |
| Basic  | \$ 1.26                 | \$ 3.63           | \$ 3.33           |
| Diluted  | \$ 1.20                 | \$ 3.50           | \$ 3.11           |
| <b>Weighted average shares outstanding:</b>  |                         |                   |                   |
| Basic  | 109,617                 | 110,064           | 114,745           |
| Diluted  | 115,735                 | 114,388           | 122,932           |

See notes to Consolidated Financial Statements.



## Consolidated Statements of Comprehensive Income

| <i>(in thousands)</i>   | Years Ended October 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2020                    | 2019       | 2018       |
| <b>Net income</b>   | \$ 133,334              | \$ 432,876 | \$ 397,905 |
| Other comprehensive income (loss):  |                         |            |            |
| Amortization of net losses on cash flow hedges, net of tax                | (100)                   | (100)      | (101)      |
| Unrealized gains (losses) on available-for-sale investments, net of tax   | -                       | -          | (414)      |
| Foreign currency translation adjustments                                  | (4,859)                 | (1,322)    | (5,192)    |
| Other comprehensive loss, net of tax                                      | (4,959)                 | (1,422)    | (5,707)    |
| Total comprehensive income  | 128,375                 | 431,454    | 392,198    |
| Comprehensive (income) loss attributable to non-controlling and other     |                         |            |            |
| beneficial interests  | 5,182                   | (32,841)   | (15,967)   |
| Total comprehensive income attributable to Eaton Vance Corp. shareholders | \$ 133,557              | \$ 398,613 | \$ 376,231 |

*See notes to Consolidated Financial Statements.*

## Consolidated Balance Sheets

| <i>(in thousands, except share data)</i>                                 | October 31,  |              |
|--|--------------|--------------|
|  | 2020         | 2019         |
| <b>Assets</b>  |              |              |
| Cash and cash equivalents  | \$ 799,384   | \$ 557,668   |
| Management fees and other receivables                                    | 249,806      | 237,864      |
| Investments  | 783,246      | 1,060,739    |
| Assets of consolidated CLO entities:                                     |              |              |
| Cash   | 91,795       | 48,704       |
| Bank loans and other investments   | 2,064,133    | 1,704,270    |
| Other assets   | 28,044       | 28,039       |
| Deferred sales commissions   | 60,655       | 55,211       |
| Deferred income taxes  | 33,423       | 62,661       |
| Equipment and leasehold improvements, net                                | 71,830       | 72,798       |
| Operating lease right-of-use assets                                      | 253,109      | -            |
| Intangible assets, net   | 120,175      | 75,907       |
| Goodwill   | 259,681      | 259,681      |
| Loan to affiliate  | 5,000        | 5,000        |
| Other assets   | 129,017      | 85,087       |
| Total assets   | \$ 4,949,298 | \$ 4,253,629 |
| <b>Liabilities, Temporary Equity and Permanent Equity</b>                |              |              |
| <b>Liabilities:</b>  |              |              |
| Accrued compensation   | \$ 246,129   | \$ 240,722   |
| Accounts payable and accrued expenses                                    | 83,991       | 89,984       |
| Dividend payable   | 42,988       | 55,177       |
| Debt   | 621,348      | 620,513      |
| Operating lease liabilities  | 301,419      | -            |
| Liabilities of consolidated CLO entities:                                |              |              |
| Senior and subordinated note obligations                                 | 1,616,243    | 1,617,095    |
| Line of credit   | 43,625       | -            |
| Other liabilities  | 399,562      | 51,122       |
| Other liabilities  | 47,454       | 108,982      |
| Total liabilities  | 3,402,759    | 2,783,595    |
| Commitments and contingencies (Note 21)                                  |              |              |
| <b>Temporary Equity:</b>   |              |              |
| Redeemable non-controlling interests                                     | 222,854      | 285,915      |
| Total temporary equity   | 222,854      | 285,915      |
| <b>Permanent Equity:</b>   |              |              |
| Voting Common Stock, par value \$ 0.00390625 per share:                  |              |              |
| Authorized, 1,280,000 shares   |              |              |
| Issued and outstanding, 464,716 and 422,935 shares, respectively         | 2            | 2            |
| Non-Voting Common Stock, par value \$0.00390625 per share:               |              |              |
| Authorized, 190,720,000 shares   |              |              |
| Issued and outstanding, 114,196,609 and 113,143,567 shares, respectively | 446          | 442          |
| Additional paid-in capital   | 176,461      | -            |
| Notes receivable from stock option exercises                             | (7,086)      | (8,447)      |
| Accumulated other comprehensive loss                                     | (63,276)     | (58,317)     |
| Retained earnings  | 1,217,138    | 1,250,439    |
| Total Eaton Vance Corp. shareholders' equity                             | 1,323,685    | 1,184,119    |
| Non-redeemable non-controlling interests                                 | -            | -            |
| Total permanent equity   | 1,323,685    | 1,184,119    |
| Total liabilities, temporary equity and permanent equity                 | \$ 4,949,298 | \$ 4,253,629 |

See notes to Consolidated Financial Statements.

## Consolidated Statements of Shareholders' Equity

|   | Permanent Equity                    |                     |                         |                            |  |                                      | Temporary Equity |                   |  |                        |
|---|-------------------------------------|---------------------|-------------------------|----------------------------|--|--------------------------------------|------------------|-------------------|--|------------------------|
|   | Voting and Non-Voting Common Shares | Voting Common Stock | Non-Voting Common Stock | Additional Paid-In Capital | Notes Receivable from Stock Option Exercises | Accumulated Other Comprehensive Loss |                  | Retained Earnings | Non-Redeemable Non-Controlling Interests | Total Permanent Equity |
| Balance, November 1, 2017   | 118,521                             | \$ 2                | \$ 461                  | \$ 148,284                 | \$ (11,112)                                  | \$ (47,474)                          | \$ 921,235       | \$ 864            | \$ 1,012,260                             | \$ 250,823             |
| Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-09) |                                     |                     |                         | 675                        |  |                                      | (523)            |                   | 152                                      |                        |
| Net income  |                                     |                     |                         |                            |  |                                      | 381,938          | 3,049             | 384,987                                  | 12,918                 |
| Other comprehensive loss, net of tax  |                                     |                     |                         |                            |  |                                      |                  |                   | (5,707)                                  |                        |
| Dividends declared (\$1.280 per share)  |                                     |                     |                         |                            |  |                                      |                  |                   | (151,952)                                |                        |
| Issuance of Non-Voting Common Stock:  |                                     |                     |                         |                            |  |                                      |                  |                   |  |                        |
| On exercise of stock options  | 2,526                               |                     | 11                      | 70,156                     | (1,770)                                      |                                      |                  |                   | 68,397                                   |                        |
| Under employee stock purchase plans   | 76                                  |                     |                         | 3,168                      |  |                                      |                  |                   | 3,168                                    |                        |
| Under employee stock purchase incentive plan  | 104                                 |                     |                         | 4,877                      |  |                                      |                  |                   | 4,877                                    |                        |
| Under restricted stock plan, net of forfeitures                                     | 1,308                               |                     | 5                       |                            |  |                                      |                  |                   | 5  |                        |
| Stock-based compensation  |                                     |                     |                         | 87,047                     |  |                                      |                  |                   | 87,047                                   |                        |
| Tax benefit associated with non-controlling interests                               |                                     |                     |                         | 5,649                      |  |                                      |                  |                   | 5,649                                    |                        |
| Repurchase of Voting Common Stock   | (20)                                |                     |                         | (171)                      |  |                                      |                  |                   | (171)                                    |                        |
| Repurchase of Non-Voting Common Stock   | (5,564)                             |                     | (22)                    | (286,664)                  |  |                                      |                  |                   | (286,686)                                |                        |
| Principal repayments on notes receivable from stock option exercises                |                                     |                     |                         |                            | 4,825  |                                      |                  |                   | 4,825                                    |                        |
| Net subscriptions (redemptions/distributions) of non-controlling interest holders   |                                     |                     |                         |                            |  |                                      |                  | (2,947)           | (2,947)                                  | 103,775                |
| Net consolidations (deconsolidations) of sponsored investment funds                 |                                     |                     |                         |                            |  |                                      |                  |                   |  | (25,320)               |
| Reclass to temporary equity   |                                     |                     |                         |                            |  |                                      |                  |                   |  | (34)                   |
| Purchase of non-controlling interests   |                                     |                     |                         |                            |  |                                      |                  |                   |  | (22,572)               |
| Changes in redemption value of non-controlling interests redeemable at fair value   |                                     |                     |                         | (15,507)                   |  |                                      |                  |                   | (15,507)                                 | 15,507                 |
| Balance October 31, 2018  | 116,951                             | \$ 2                | \$ 455                  | \$ 17,514                  | \$ (8,057)                                   | \$ (53,181)                          | \$ 1,150,698     | \$ 1,000          | \$ 1,108,431                             | \$ 335,097             |

See notes to Consolidated Financial Statements.

## Consolidated Statements of Shareholders' Equity (continued)

|   | Permanent Equity                    |                     |                         |                            |  |                                      |                   |  |                        |                                      | Temporary Equity |
|---|-------------------------------------|---------------------|-------------------------|----------------------------|--|--------------------------------------|-------------------|--|------------------------|--------------------------------------|------------------|
|   | Voting and Non-Voting Common Shares | Voting Common Stock | Non-Voting Common Stock | Additional Paid-In Capital | Notes Receivable from Stock Option Exercises | Accumulated Other Comprehensive Loss | Retained Earnings | Non-Redeemable Non-Controlling Interests | Total Permanent Equity | Redeemable Non-Controlling Interests |                  |
| Balance, November 1, 2018   | 116,951                             | \$ 2                | \$ 455                  | \$ 17,514                  | \$ (8,057)                                   | \$ (53,181)                          | \$ 1,150,698      | \$ 1,000                                 | \$ 1,108,431           | \$ 335,097                           |                  |
| Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-01) |                                     |                     |                         |                            |  | (3,714)                              | 3,714             |  |                        |                                      |                  |
| Net income  |                                     |                     |                         |                            |  |                                      | 400,035           | 1,812                                    | 401,847                | 31,029                               |                  |
| Other comprehensive loss, net of tax  |                                     |                     |                         |                            |  | (1,422)                              |                   |  | (1,422)                |                                      |                  |
| Dividends declared (\$1.425 per share)  |                                     |                     |                         |                            |  |                                      | (162,592)         |  | (162,592)              |                                      |                  |
| Issuance of Non-Voting Common Stock:  |                                     |                     |                         |                            |  |                                      |                   |  |                        |                                      |                  |
| On exercise of stock options  | 1,570                               |                     | 6                       | 45,023                     | (1,573)                                      |                                      |                   |  | 43,456                 |                                      |                  |
| Under employee stock purchase plans   | 82                                  |                     |                         | 3,197                      |  |                                      |                   |  | 3,197                  |                                      |                  |
| Under employee stock purchase incentive plan  | 126                                 |                     |                         | 4,594                      |  |                                      |                   |  | 4,594                  |                                      |                  |
| Under restricted stock plan, net of forfeitures                                     | 2,247                               |                     | 9                       |                            |  |                                      |                   |  | 9                      |                                      |                  |
| Stock-based compensation  |                                     |                     |                         | 90,998                     |  |                                      |                   |  | 90,998                 |                                      |                  |
| Tax benefit associated with non-controlling interest                                |                                     |                     |                         | 21,944                     |  |                                      |                   |  | 21,944                 |                                      |                  |
| Repurchase of Non-Voting Common Stock   | (7,409)                             |                     | (28)                    | (158,490)                  |  |                                      | (141,416)         |  | (299,934)              |                                      |                  |
| Principal repayments on notes receivable from stock option exercises                |                                     |                     |                         |                            | 1,183  |                                      |                   |  | 1,183                  |                                      |                  |
| Net subscriptions (redemptions/distributions) of non-controlling interest holders   |                                     |                     |                         |                            |  |                                      |                   | (2,190)                                  | (2,190)                | 48,233                               |                  |
| Net consolidations (deconsolidations) of sponsored investment funds                 |                                     |                     |                         |                            |  |                                      |                   |  |                        | (67,989)                             |                  |
| Reclass to temporary equity   |                                     |                     |                         |                            |  |                                      |                   | (622)                                    | (622)                  | 622                                  |                  |
| Purchase of non-controlling interests   |                                     |                     |                         |                            |  |                                      |                   |  |                        | (85,857)                             |                  |
| Changes in redemption value of non-controlling interests redeemable at fair value   |                                     |                     |                         | (24,780)                   |  |                                      |                   |  | (24,780)               | 24,780                               |                  |
| Balance, October 31, 2019   | 113,567                             | \$ 2                | \$ 442                  | \$ -                       | \$ (8,447)                                   | \$ (58,317)                          | \$ 1,250,439      | \$ -                                     | \$ 1,184,119           | \$ 285,915                           |                  |

See notes to Consolidated Financial Statements.

## Consolidated Statements of Shareholders' Equity (continued)

|   | Permanent Equity                    |                     |                         |                            |  |                                      |                   |                           |                        |                                      | Temporary Equity |
|---|-------------------------------------|---------------------|-------------------------|----------------------------|--|--------------------------------------|-------------------|---------------------------|------------------------|--------------------------------------|------------------|
|   | Voting and Non-Voting Common Shares | Voting Common Stock | Non-Voting Common Stock | Additional Paid-In Capital | Notes Receivable from Stock Option Exercises | Accumulated Other Comprehensive Loss | Retained Earnings | Non-Controlling Interests | Total Permanent Equity | Redeemable Non-Controlling Interests |                  |
| <i>(in thousands)</i>   |                                     |                     |                         |                            |  |                                      |                   |                           |                        |                                      |                  |
| Balance, November 1, 2019   | 113,567                             | \$ 2                | \$ 442                  | \$ -                       | \$ (8,447)                                   | \$ (58,317)                          | \$ 1,250,439      | \$ -                      | \$ 1,184,119           | \$ 285,915                           |                  |
| Net income (loss)   | -                                   | -                   | -                       | -                          | -  | -                                    | 138,516           | 667                       | 139,183                | (5,849)                              |                  |
| Other comprehensive loss, net of tax  | -                                   | -                   | -                       | -                          | -  | (4,959)                              | -                 | -                         | (4,959)                | -                                    |                  |
| Dividends declared (\$1.500 per share)  | -                                   | -                   | -                       | -                          | -  | -                                    | (171,817)         | -                         | (171,817)              | -                                    |                  |
| Issuance of Voting Common Stock   | 56                                  | -                   | -                       | 581                        | -  | -                                    | -                 | -                         | 581                    | -                                    |                  |
| Issuance of Non-Voting Common Stock:  |                                     |                     |                         |                            |  |                                      |                   |                           |                        |                                      |                  |
| On exercise of stock options  | 3,390                               | -                   | 13                      | 107,724                    | (2,187)                                      | -                                    | -                 | -                         | 105,550                | -                                    |                  |
| Under employee stock purchase plans   | 86                                  | -                   | -                       | 3,037                      | -  | -                                    | -                 | -                         | 3,037                  | -                                    |                  |
| Under employee stock purchase incentive plan                                      | 114                                 | -                   | -                       | 3,973                      | -  | -                                    | -                 | -                         | 3,973                  | -                                    |                  |
| Under restricted stock plan, net of forfeitures                                   | 1,625                               | -                   | 7                       | -                          | -  | -                                    | -                 | -                         | 7                      | -                                    |                  |
| Stock-based compensation  | -                                   | -                   | -                       | 237,541                    | -  | -                                    | -                 | -                         | 237,541                | -                                    |                  |
| Tax benefit associated with non-controlling interest                              | -                                   | -                   | -                       | 4,216                      | -  | -                                    | -                 | -                         | 4,216                  | -                                    |                  |
| Repurchase of Voting Common Stock   | (14)                                | -                   | -                       | (145)                      | -  | -                                    | -                 | -                         | (145)                  | -                                    |                  |
| Repurchase of Non-Voting Common Stock   | (4,163)                             | -                   | (16)                    | (171,526)                  | -  | -                                    | -                 | -                         | (171,542)              | -                                    |                  |
| Principal repayments on notes receivable from stock option exercises              | -                                   | -                   | -                       | -                          | 3,548  | -                                    | -                 | -                         | 3,548                  | -                                    |                  |
| Net subscriptions (redemptions/distributions) of non-controlling interest holders | -                                   | -                   | -                       | -                          | -  | -                                    | -                 | (667)                     | (667)                  | 242,487                              |                  |
| Net consolidations (deconsolidations) of sponsored investment funds               | -                                   | -                   | -                       | -                          | -  | -                                    | -                 | -                         | -                      | (301,867)                            |                  |
| Purchase of non-controlling interests   | -                                   | -                   | -                       | -                          | -  | -                                    | -                 | -                         | -                      | (6,772)                              |                  |
| Changes in redemption value of non-controlling interests redeemable at fair value | -                                   | -                   | -                       | (8,940)                    | -  | -                                    | -                 | -                         | (8,940)                | 8,940                                |                  |
| Balance, October 31, 2020   | 114,661                             | \$ 2                | \$ 446                  | \$ 176,461                 | \$ (7,086)                                   | \$ (63,276)                          | \$ 1,217,138      | \$ -                      | \$ 1,323,685           | \$ 222,854                           |                  |

See notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

| <i>(in thousands)</i>  | Years Ended October 31, |             |            |
|--|-------------------------|-------------|------------|
|  | 2020                    | 2019        | 2018       |
| <b>Cash Flows From Operating Activities:</b>   |                         |             |            |
| Net income   | \$ 133,334              | \$ 432,876  | \$ 397,905 |
| Adjustments to reconcile net income to net cash provided by operating activities:          |                         |             |            |
| Depreciation and amortization  | 23,385                  | 23,706      | 25,013     |
| Amortization of deferred sales commissions   | 24,986                  | 22,592      | 18,394     |
| Stock-based compensation   | 237,541                 | 90,998      | 87,047     |
| Deferred income taxes  | 35,347                  | 4,503       | 25,246     |
| Net (gains) losses on investments and derivatives  | 21,613                  | (8,255)     | 17,796     |
| Loss on expiration of Hexavest option  | -                       | -           | 6,523      |
| Equity in net (income) loss of affiliates, net of tax                                      | 117,231                 | (9,090)     | (11,373)   |
| Dividends received from affiliates   | 7,433                   | 10,927      | 12,243     |
| Non-cash operating lease expense   | 17,289                  | -           | -          |
| <b>Consolidated CLO entities' operating activities:</b>                                    |                         |             |            |
| Net (gains) losses on bank loans, other investments and note obligations                   | 37,184                  | 4,240       | (1,999)    |
| Amortization of bank loan investments  | (3,772)                 | (1,447)     | (248)      |
| (Increase) decrease in other assets, net of other liabilities                              | (11,360)                | 12,680      | (150)      |
| Increase (decrease) in cash due to initial consolidation (deconsolidation) of CLO entities | (4,606)                 | 19,009      | 51,278     |
| Changes in operating assets and liabilities:   |                         |             |            |
| Management fees and other receivables  | (11,914)                | (1,052)     | (36,427)   |
| Short-term debt securities   | 27,457                  | (24,663)    | (59,551)   |
| Investments held by consolidated sponsored funds and separately managed accounts           | (268,996)               | (28,492)    | (181,797)  |
| Deferred sales commissions   | (30,430)                | (29,169)    | (30,598)   |
| Other assets   | 5,039                   | (1,459)     | (1,960)    |
| Accrued compensation   | 5,356                   | 6,674       | 26,806     |
| Accounts payable and accrued expenses  | 10,953                  | (4,924)     | 10,287     |
| Operating lease liabilities  | (17,760)                | -           | -          |
| Other liabilities  | (30,481)                | (7,836)     | 5,286      |
| Net cash provided by operating activities  | 324,829                 | 511,818     | 359,721    |
| <b>Cash Flows From Investing Activities:</b>   |                         |             |            |
| Additions to equipment and leasehold improvements  | (21,043)                | (34,897)    | (18,747)   |
| Net cash paid in acquisitions  | (28,800)                | -           | -          |
| Proceeds from sale of investments  | 16,333                  | 14,067      | 24,486     |
| Purchase of investments  | (288)                   | (3,514)     | (7,022)    |
| Proceeds from sale of investments in CLO entity note obligations                           | 27,258                  | -           | 76,563     |
| Purchase of investments in CLO entity note obligations                                     | (39,494)                | (54,352)    | (147,322)  |
| <b>Consolidated CLO entities' investing activities:</b>                                    |                         |             |            |
| Proceeds from sale of bank loans and other investments                                     | 645,390                 | 501,356     | 154,871    |
| Purchase of bank loans and other investments   | (1,113,797)             | (1,098,530) | (407,883)  |
| Net cash used for investing activities   | (514,441)               | (675,870)   | (325,054)  |

See notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows (continued)

| <i>(in thousands)</i>   | Years Ended October 31, |            |              |
|---|-------------------------|------------|--------------|
|   | 2020                    | 2019       | 2018         |
| <b>Cash Flows From Financing Activities:</b>  |                         |            |              |
| Purchase of additional non-controlling interest   | (8,372)                 | (91,617)   | (20,818)     |
| Proceeds from line of credit  | 300,000                 | -          | -            |
| Repayment of line of credit   | (300,000)               | -          | -            |
| Line of credit issuance costs   | -                       | (930)      | -            |
| Proceeds from issuance of Voting Common Stock   | 581                     | -          | -            |
| Proceeds from issuance of Non-Voting Common Stock   | 112,567                 | 51,256     | 76,447       |
| Repurchase of Voting Common Stock   | (145)                   | -          | (171)        |
| Repurchase of Non-Voting Common Stock   | (185,212)               | (299,400)  | (273,550)    |
| Principal repayments on notes receivable from stock option exercises                                    | 3,548                   | 1,183      | 4,825        |
| Dividends paid  | (183,893)               | (159,123)  | (144,855)    |
| Net subscriptions received from (redemptions/distributions paid to)<br>non-controlling interest holders | 240,742                 | 44,508     | 100,360      |
| <b>Consolidated CLO entities' financing activities:</b>   |                         |            |              |
| Proceeds from line of credit  | 177,035                 | 197,915    | 245,898      |
| Repayment of line of credit   | (133,410)               | (197,915)  | (258,496)    |
| Issuance of senior and subordinated note obligations  | 451,610                 | 794,767    | 1,320,397    |
| Principal repayments of senior and subordinated note obligations  | (500)                   | (389,000)  | (865,624)    |
| Net cash provided by (used for) financing activities  | 474,551                 | (48,356)   | 184,413      |
| Effect of currency rate changes on cash and cash equivalents  | (1,618)                 | (322)      | (2,868)      |
| Net increase (decrease) in cash, cash equivalents and restricted cash                                   | 283,321                 | (212,730)  | 216,212      |
| Cash, cash equivalents and restricted cash, beginning of year   | 653,345                 | 866,075    | 649,863      |
| Cash, cash equivalents and restricted cash, end of year   | \$ 936,666              | \$ 653,345 | \$ 866,075   |
| <b>Supplemental Cash and Restricted Cash Flow Information:</b>  |                         |            |              |
| Cash paid for interest  | \$ 23,141               | \$ 22,695  | \$ 22,660    |
| Cash paid for interest by consolidated CLO entities   | 55,946                  | 38,140     | 10,681       |
| Cash paid for income taxes, net of refunds  | 102,252                 | 125,054    | 135,105      |
| <b>Supplemental Schedule of Non-Cash Investing and Financing Transactions:</b>                          |                         |            |              |
| Increase in equipment and leasehold improvements due<br>to non-cash additions                           | \$ 1,058                | \$ 4,341   | \$ 1,336     |
| Increase in definitive-lived intangible assets due to non-cash<br>acquisition consideration             | 19,311                  | -          | -            |
| Operating lease right-of-use assets recognized upon adoption<br>of new lease guidance                   | 270,040                 | -          | -            |
| Operating lease liabilities recognized upon adoption of new<br>lease guidance                           | 318,824                 | -          | -            |
| Operating lease right-of-use assets obtained in exchange for<br>new operating lease liabilities         | 328                     | -          | -            |
| Exercise of stock options through issuance of notes receivable  | 2,187                   | 1,573      | 1,770        |
| Non-Voting Common Stock repurchases recorded in accounts<br>payable and accrued expenses                | -                       | 13,670     | 13,136       |
| Non-controlling interest call option exercise recorded in other liabilities                             | 6,772                   | 8,372      | 14,133       |
| Decrease in non-controlling interest due to net deconsolidation<br>of sponsored investment funds        | (301,867)               | (67,989)   | (25,320)     |
| Decrease in bank loans and other investments of consolidated<br>CLO entities due to unsettled sales     | (23,886)                | (24,193)   | -            |
| Increase in bank loans and other investments of consolidated<br>CLO entities due to unsettled purchases | 392,447                 | 33,985     | 149,617      |
| <b>Initial Consolidation of CLO Entities:</b>   |                         |            |              |
| Increase in bank loans and other investments  | \$ -                    | \$ 410,853 | \$ 814,122   |
| Increase in senior loan obligations   | -                       | 391,080    | 843,089      |
| <b>Deconsolidation of CLO Entities:</b>   |                         |            |              |
| Decrease in bank loans and other investments  | \$ (445,569)            | \$ -       | \$ (379,676) |
| Decrease in senior and subordinated loan obligations  | (421,601)               | -          | (378,742)    |

See notes to Consolidated Financial Statements.

## Notes to Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

#### ***Business and organization***

Eaton Vance Corp. and its subsidiaries (Company) manage investment funds and provide investment management and advisory services to high-net-worth individuals and institutions in the United States, Europe, the Asia Pacific region and certain other international markets. The Company distributes its funds and individual managed accounts principally through financial intermediaries. The Company also commits significant resources to serving institutional and high-net-worth clients who access investment management services on a direct basis and through investment consultants.

Revenue is largely dependent on the total value and composition of assets under management, which include sponsored funds and separate accounts. Accordingly, fluctuations in financial markets and changes in the composition of assets under management affect revenue and the results of operations.

#### ***Proposed acquisition of Eaton Vance by Morgan Stanley***

On October 8, 2020, Eaton Vance and Morgan Stanley announced that they had entered into a definitive agreement for Morgan Stanley to acquire Eaton Vance. Under the terms of the merger agreement, Eaton Vance shareholders will receive \$28.25 per share in cash and 0.5833 shares of Morgan Stanley Common Stock per share of Eaton Vance Non-Voting Common Stock and Eaton Vance Voting Common Stock (together, Eaton Vance Common Stock) held. The merger agreement contains an election procedure whereby each Eaton Vance shareholder may elect to receive the merger consideration all in cash or all in stock, subject to proration and adjustment.

The merger agreement also provided for Eaton Vance shareholders to receive a special cash dividend of \$4.25 per share of Eaton Vance Common Stock held. On November 23, 2020, the Eaton Vance Board of Directors declared the \$4.25 per share dividend, which was paid on December 18, 2020 to shareholders of record on December 4, 2020.

The proposed transaction is subject to customary closing conditions.

#### ***Basis of presentation***

The preparation of the Company's Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make judgments, estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and related notes to the Consolidated Financial Statements. However, due to the inherent uncertainties in making estimates, actual results could differ from those estimates.

#### ***Adoption of new accounting standard***

The Company adopted Accounting Standards Update (ASU) 2016-02, Leases, as of November 1, 2019. This guidance requires a lessee to recognize assets and liabilities on the balance sheet related to the rights and obligations created by those leases. The Company applied a modified retrospective approach to adoption and has not restated comparative periods. In order to reduce the complexity of adoption, the Company



electd practical expedients that allowed it to forego reassessments of the following: whether an arrangement is or contains a lease, the classification of the lease, the recognition requirement for initial direct costs, and assumptions regarding renewal options that affect the lease term. Separately, the Company made accounting policy elections to (1) not separate lease and non-lease components such that all consideration required to be paid under its lease agreements will be allocated to the lease component, and (2) report short-term leases with a term of twelve months or less off-balance sheet.

Upon adoption of the new guidance on November 1, 2019, the Company recognized operating lease right-of-use (ROU) assets of approximately \$270.0 million equal to forecasted operating lease liabilities less deferred rent of \$48.8 million, which was recognized under previous lease accounting guidance, and operating lease liabilities of approximately \$318.8 million, with no cumulative-effect adjustment to opening retained earnings. The new guidance does not have a significant impact on the Company's results of operations or cash flows because operating lease costs continue to be recognized on a straight-line basis over the remaining lease term and operating lease payments continue to be classified within operating activities in the Consolidated Statement of Cash Flows.

The Company's accounting policies related to leases, as provided below, have been updated to reflect the adoption of this new accounting standard as of November 1, 2019.

### ***Principles of consolidation***

The Consolidated Financial Statements include the accounts of the Company and its controlled affiliates. All legal entities are evaluated for consolidation under two primary consolidation models; namely, the voting interest entity model and the variable interest entity (VIE) model. Both consolidation models require the Company to consolidate a legal entity when it has a controlling financial interest in that entity. The Company recognizes non-controlling interests (held by third parties) in consolidated entities in which the Company's ownership is less than 100 percent. All intercompany accounts and transactions have been eliminated in consolidation.

Under the voting interest entity model, the Company consolidates any voting interest entity in which the Company is considered to have a controlling financial interest, which is typically when the Company's voting ownership exceeds 50 percent or where the Company otherwise has the power to govern the financial and operating policies of the entity. Voting interest entities primarily include wholly- and majority-owned affiliates through which the Company conducts its business.

The Company evaluates any VIEs in which the Company has a variable interest for consolidation. A VIE is an entity in which either: (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support; or (b) where, as a group, the holders of the equity investment at risk do not possess: (1) the power through voting or similar rights to direct the activities that most significantly affect the entity's economic performance, (2) the obligation to absorb expected losses or the right to receive expected residual returns of the entity or (3) proportionate voting and economic interests (in instances in which substantially all of the entity's activities either involve or are conducted on behalf of one or more investors with disproportionately fewer voting rights). If an entity has any of these characteristics, it is considered a VIE and is required to be consolidated by its primary beneficiary.

The Company is deemed to be the primary beneficiary of a VIE when it has a variable interest that provides it with both (1) the power to direct the activities that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the VIE that

could potentially be significant to the VIE. VIEs consolidated by the Company primarily include certain open-end registered investment companies that it sponsors (sponsored funds) and collateralized loan obligation (CLO) entities. Additional considerations relevant to the application of the VIE model to sponsored funds and CLO entities are discussed below.

The Company may consolidate one or more sponsored funds or CLO entities during a given reporting period. Due to the similarity of risks related to the Company's involvement with each of these entities, and disclosures required under the VIE model, certain disclosures regarding these entities are aggregated.

#### *Consolidation of sponsored funds*

With limited exceptions, each of the Company's sponsored funds is organized as a separately managed series of a series trust. Each series trust contains multiple funds that issue equity interests to shareholders. All assets of a fund within a series trust irrevocably belong to the shareholders of that fund and are subject to the liabilities of that fund; under no circumstances are the liabilities of one fund payable by another fund in the series trusts. The Company's series trusts have no equity investment at risk; rather, all equity is issued at the individual fund level. However, decisions regarding the trustees of the series trust and certain key activities of funds within the series trust, such as appointment of each fund's investment adviser, typically reside at the series trust level. As a result, shareholders of funds organized as series of a series trust lack the ability to control the key decision-making processes that most significantly affect the economic performance of the fund. Accordingly, each series trust is a VIE and each component fund within the series trust is a silo that should be evaluated for consolidation as a separate VIE. Having concluded that each silo is a VIE for accounting purposes, the primary beneficiary evaluation is focused on an analysis of economic interests in each silo.

The Company regularly seeds new sponsored funds and may hold a significant interest in the shares of a sponsored fund during the seed investment stage when the sponsored fund's investment track record is being established. The Company has concluded that, to the extent that the Company's interest in a sponsored fund is limited to: (1) market-based fees earned from the fund that are commensurate with the level of effort to provide the service; and (2) other interests that, in aggregate, would absorb an insignificant amount of variability in the fund, the Company's asset management agreements would not be considered a variable interest that provides the Company with the power to direct the activities of the fund and therefore the Company would not be required to consolidate the fund. The Company has concluded that its fees earned from advisory agreements with sponsored funds in which the Company holds a significant (at least 10 percent) ownership interest in the fund do represent variable interests that, in combination with the ownership interest, convey both power and significant economic exposure (both characteristics of a controlling financial interest) to the Company, and therefore the Company would be deemed to be the primary beneficiary and required to consolidate the funds.

Upon consolidation, management fee revenue earned on, as well as the Company's investments in, consolidated sponsored funds are eliminated. The Company retains the specialized accounting treatment of sponsored funds in consolidation whereby the underlying investments are carried at fair value, with corresponding changes in fair value reflected in gains (losses) and other investment income, net, in the Company's Consolidated Statements of Income. When the Company is no longer deemed to hold a controlling financial interest in a sponsored fund, the Company deconsolidates the sponsored fund and removes the related assets, liabilities and non-controlling interests from its balance sheet and the Company's remaining equity investment is held at fair value. Because consolidated sponsored funds carry their assets and liabilities at fair value, there is no incremental gain or loss recognized upon deconsolidation.

### *Consolidation of CLO entities*

In the normal course of business, the Company provides collateral management services to, and in certain cases invests in, sponsored CLO entities. The Company evaluates such CLO entities under the VIE model as the equity investment at risk is not sufficient to finance the activities of these entities, which are primarily financed through the issuance of senior debt obligations. The fees paid to the Company as collateral manager are not considered to be variable interests in sponsored CLO entities in cases where each of the following conditions are met: (1) the fees paid to the Company are commensurate with the level of effort required to provide the collateral management services, (2) the Company does not hold other interests in the CLO entity that individually, or in the aggregate, would absorb more than an insignificant amount (less than 10 percent) of the CLO entity's expected losses or residual returns, and (3) the terms of the collateral management agreement between the Company and the CLO entity are consistent with the terms for similar services negotiated at arm's length. Unless each of these criteria is met, the Company is deemed to have a variable interest in the sponsored CLO entity and would be required to consolidate the VIE if the Company is the primary beneficiary.

In assessing whether the Company is the primary beneficiary of a sponsored CLO entity, the Company considers its role as collateral manager and the significance of other interests in the CLO entity that are held by the Company. As collateral manager, the Company has the power to direct the activities that most significantly affect the economic performance of these entities. In cases where the Company holds at least 10 percent of the subordinated interests of a sponsored CLO entity, the Company is deemed to have the obligation to absorb losses of, or the right to receive benefits from, the CLO entity that could potentially be significant to the CLO entity. Accordingly, the Company deems itself to be the primary beneficiary of a CLO entity, and thus consolidates the entity, in cases where the Company both: (1) provides collateral management services to the CLO entity and (2) holds at least 10 percent of the subordinated interests of the CLO entity.

Upon consolidation, management fee revenue earned on, as well as the Company's subordinated interests in, consolidated CLO entities are eliminated. The Company applies the measurement alternative to Accounting Standard Codification (ASC) 820 related to fair value measurement for collateralized financing entities upon initial consolidation and for the subsequent measurement of financial assets and liabilities of these entities. The measurement alternative requires reporting entities to use the more observable of the fair value of the financial assets or the fair value of the financial liabilities to measure both the financial assets and the financial liabilities of a collateralized financing entity. Any gain or loss resulting from the initial application of the measurement alternative is reflected in earnings attributable to the reporting entity. Subsequent to initial consolidation, the application of the measurement alternative requires the Company to recognize in earnings amounts that reflect the equivalent of its own economic interests in the CLO entity, which generally include both changes in fair value of any retained investment and management fees received as compensation for collateral management services. When the Company is no longer deemed to be the primary beneficiary of a CLO entity, the Company deconsolidates the CLO entity and removes the related assets and liabilities from its balance sheet. Because assets and liabilities of consolidated CLO entities in the securitization phase are carried at fair value pursuant to the measurement alternative to ASC 820 previously described, there is no incremental gain or loss recognized upon deconsolidation.

### ***Segment information***

Management has determined that the Company operates in one segment, namely as an investment adviser managing funds and separate accounts. The Company's determination that it operates in one business segment is based primarily on the fact that the Company's Chief Executive Officer reviews the Company's financial performance at an aggregate level. All of the business services provided by the Company relate to investment management and are subject to similar regulatory frameworks. Investment management teams at the Company are generally not aligned with specific business lines or distribution channels; in many instances, the investment professionals who manage the Company's sponsored funds are the same investment professionals who manage the Company's separately managed accounts.

### ***Cash and cash equivalents***

Cash and cash equivalents consists principally of cash held in banks as well as cash equivalents that may consist of short-term, highly liquid investments in money market mutual funds, commercial paper, certificates of deposit and holdings of Treasury and government agency securities that are readily convertible to cash. Cash equivalents have remaining maturities of less than three months, as determined upon purchase by the Company, and are stated at fair value or amortized cost, which approximates fair value due to the short-term maturities of these investments. Cash deposits maintained at a financial institution may exceed the federally insured limit.

### ***Restricted cash***

Restricted cash includes cash collateral required for margin accounts established to support derivative positions and other segregated cash held to comply with certain regulatory requirements. Such derivatives are used to hedge certain of the Company's investments in consolidated sponsored funds and separately managed accounts seeded for business development purposes (consolidated seed investments). Restricted cash also includes cash and cash equivalents held by consolidated sponsored funds and consolidated CLO entities, which are not available to the Company for its general operations.

### ***Investments***

#### ***Debt securities held at fair value***

Debt securities held at fair value consist of certificates of deposit, commercial paper and corporate debt obligations with remaining maturities of three months to 12 months upon purchase by the Company, as well as investments in debt securities held in consolidated sponsored funds and separately managed accounts. Debt securities are measured at fair value with net realized and unrealized holding gains or losses, and interest and dividend income reflected as a component of gains (losses) and other investment income, net, on the Company's Consolidated Statements of Income. The specific identified cost method is used to determine the realized gains or losses on all debt securities sold.

#### ***Equity securities held at fair value***

Equity securities consist primarily of domestic and foreign equity securities held in consolidated sponsored funds and separately managed accounts and the Company's investments in non-consolidated funds. Equity securities and investments in non-consolidated funds with readily determinable fair values are measured at fair value based on quoted market prices and published net asset values per share, respectively. Investments in non-consolidated funds without readily determinable fair values are measured at fair value based on the net asset value (or equivalent) of the fund shares held.

Equity investments without readily determinable fair values are measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the same or similar instruments of the same issuer (cost method). Investments held at cost are qualitatively evaluated for impairment each reporting period. If that qualitative assessment indicates that an investment held at cost is impaired, the fair value of the investment is estimated and an impairment loss is recognized equal to the difference between the estimated fair value of the investment and its carrying amount. If an equity security valued under the cost method subsequently has a readily determinable fair value or if the Company irrevocably elects to measure the equity security at fair value, the cost method is no longer applied to such security.

Net realized and unrealized holding gains or losses on equity securities, any observable price changes and/or impairment losses attributable to investments held at cost, and dividend income are all reflected within gains (losses) and other investment income, net, on the Company's Consolidated Statements of Income. The specific identified cost method is used to determine the realized gains or losses on all equity securities sold.

#### *Investments in non-consolidated CLO entities*

Investments in non-consolidated CLO entities are carried at amortized cost unless impaired. The excess of actual and anticipated future cash flows over the initial investment at the date of purchase is recognized in gains (losses) and other investment income, net, over the life of the investment using the effective yield method. The Company reviews cash flow estimates throughout the life of each non-consolidated CLO entity. If the updated estimate of future cash flows (taking into account both timing and amounts) is less than the last estimate, an impairment loss is recognized to the extent the carrying amount of the investment exceeds its fair value.

#### *Investments in equity method investees*

Investments in non-controlled affiliates in which the Company's ownership ranges from 20 to 50 percent, or in which the Company is able to exercise significant influence, but not control, are accounted for under the equity method of accounting. Investor basis differences (along with any related tax impacts) identified at acquisition are recognized as a component of the carrying amount of the investment. Under the equity method of accounting, the Company's share of the investee's underlying net income or loss, amortization of investor basis differences (other than equity method goodwill, which is not amortized) and any other-than-temporary impairments are recorded as equity in net income (loss) of affiliates, net of tax. Distributions received from investees reduce the Company's investment balance and are classified as cash flows either from operating activities or investing activities in the Company's Consolidated Statements of Cash Flows as determined using the cumulative earnings method. Investments in equity method investees are evaluated for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of an investment exceeds its respective fair value as of the balance sheet date, additional impairment tests are performed to determine whether the investment is other-than-temporarily impaired and to measure the amount of the other-than-temporary impairment loss, if any. Other-than-temporary impairment charges are allocated to investor basis differences using the fair value method.

#### ***Fair value measurements***

The accounting standards for fair value measurement provide a framework for measuring fair value and require disclosures of how fair value is determined. Fair value is defined as the price that would be

received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The accounting standards establish a fair value measurement hierarchy, which requires an entity to maximize the use of observable inputs where available. This fair value measurement hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The Company utilizes third-party pricing services to value investments in various asset classes, including interests in senior floating-rate loans and other debt obligations, derivatives and certain foreign equity securities, as further discussed below. Valuations provided by the pricing services are subject to exception reporting that identifies securities with significant movements in valuation, as well as investments with no movements in valuation. These exceptions are reviewed by the Company on a daily basis. The Company compares the price of trades executed by the Company to the valuations provided by the third-party pricing services to identify and research significant variances. The Company periodically compares the pricing service valuations to valuations provided by a secondary independent source when available. Market data provided by the pricing services and other market participants, such as the Loan Syndication and Trading Association (LSTA) trade study, is reviewed by the Company to assess the reliability of the provided data. The Company's Valuation Committee reviews the general assumptions underlying the methodologies used by the pricing services to value various asset classes at least annually. Throughout the year, members of the Company's Valuation Committee or its designees meet with pricing service providers to discuss any significant changes to the service providers' valuation methodologies or operational processes.

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories based on the nature of the inputs that are significant to the fair value measurements in their entirety. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value measurement hierarchy. In such cases, an investment's classification within the fair value measurement hierarchy is based on the lowest level of input that is significant to the fair value measurement.

- Level 1      Unadjusted quoted market prices in active markets for identical assets or liabilities at the reporting date.
  
- Level 2      Observable inputs other than Level 1 unadjusted quoted market prices, such as quoted market prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities that are not active, and inputs other than quoted prices that are observable or corroborated by observable market data.
  
- Level 3      Unobservable inputs that are supported by little or no market activity.

### ***Derivative financial instruments***

The Company may utilize derivative financial instruments to hedge market, interest rate, commodity and currency risks associated with its investments in separate accounts and certain consolidated sponsored funds seeded for business development purposes, exposures to fluctuations in foreign currency exchange rates associated with investments denominated in foreign currencies and interest rate risk inherent in debt offerings. In addition, certain consolidated funds may enter into derivative financial instruments within

their portfolios to achieve stated investment objectives. The Company does not use derivative financial instruments for speculative purposes.

The Company records all derivative financial instruments as either assets or liabilities on its Consolidated Balance Sheets and measures these instruments at fair value. Derivative transactions are presented on a gross basis in the Company's Consolidated Balance Sheets. Changes in the fair value of derivative financial instruments that are not designated in a hedge relationship are recognized in earnings in the current period.

### ***Deferred sales commissions***

Sales commissions paid to broker-dealers in connection with the sale of certain classes of shares of sponsored open-end and private funds are deferred and amortized over their expected useful life, which does not exceed five years from purchase. The useful life reflects the period during which the Company expects to recover such sales commissions, taking into consideration the period during which redemptions by the purchasing shareholder are subject to a contingent deferred sales charge or distribution fees apply to the purchased fund shares.

The Company evaluates the carrying value of its deferred sales commission assets for impairment on a quarterly basis. In its impairment analysis, the Company compares the carrying value of a deferred sales commission asset to the undiscounted cash flows expected to be generated by the asset in the form of distribution fees over its remaining useful life to determine whether impairment has occurred. If the carrying value of the asset exceeds the undiscounted cash flows, the asset is written down to fair value based on discounted cash flows. Impairment adjustments are recognized in operating income as a component of amortization of deferred sales commissions.

### ***Income taxes***

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the Company's assets and liabilities measured using rates expected to be in effect when such differences reverse. To the extent that deferred tax assets are considered more likely than not to be unrealizable, valuation allowances are provided. Adjustments to deferred taxes resulting from changes in tax law are recorded as an expense or benefit in the period enacted.

The Company's effective tax rate reflects the statutory tax rates of the many jurisdictions in which it operates. Significant judgment is required in evaluating its tax positions. In the ordinary course of business, many transactions occur for which the ultimate tax outcome is uncertain. Accounting standards governing the accounting for uncertainty in income taxes for a tax position taken or expected to be taken in a tax return require that the tax effects of a position be recognized only if it is more likely than not to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold must be met in each reporting period to support continued recognition of the benefit. The difference between the tax benefit recognized in the financial statements for a tax position and the tax benefit claimed in the income tax return is referred to as an unrecognized tax benefit. Unrecognized tax benefits, as well as the related interest and penalties, are adjusted regularly to reflect changing facts and circumstances. The Company classifies any interest or penalties incurred as a component of income tax expense.

### ***Equipment and leasehold improvements***

Equipment and other fixed assets are recorded at cost and depreciated on a straight-line basis over their estimated useful lives, which range from three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the lease term. Expenditures for repairs and maintenance are charged to expense when incurred. Equipment and leasehold improvements are tested for impairment whenever changes in facts or circumstances indicate that the carrying amount of an asset may not be recoverable.

Certain internal and external costs incurred in connection with developing or obtaining software for internal use are capitalized and amortized on a straight-line basis over the shorter of the estimated useful life of the software or three years, beginning when the software project is complete and the application is put into production. These costs are included in equipment and leasehold improvements on the Company's Consolidated Balance Sheets.

### ***Goodwill***

Goodwill represents the excess of the cost of the Company's investment in the net assets of acquired companies over the fair value of the underlying identifiable net assets at the dates of acquisition through applying the acquisition method of accounting. The Tax Advantaged Bond Strategies (TABS) business originally acquired from M.D. Sass Investor Services provides rules-based, systematic municipal bond and blended municipal/taxable bond investment strategies to separate accounts managed for individual and institutional clients and fund investors. As part of the strategic initiative announced in June 2019 to strengthen Parametric Portfolio Associates LLC's (Parametric's) leadership positions in rules-based, systematic investing and customized individual separate accounts, the TABS business of Eaton Vance Management (EVM) was contributed to Parametric by EVM on January 1, 2020. The investment strategies managed by TABS are now internally and externally reported as Parametric custom portfolios and Parametric fixed income mandates (see Note 12 for further information), and all of the goodwill associated with the acquisition of TABS has been reassigned to the reporting unit that includes Parametric. The Company allocated all goodwill associated with its acquisitions of Atlanta Capital Management Company, LLC (Atlanta Capital), Parametric, Clifton Group Investment Management Company (Clifton), and TABS, which share similar economic characteristics, to one reporting unit. The Company allocates all goodwill associated with other acquisitions to a second reporting unit.

Goodwill is not amortized, but is tested annually for impairment at the reporting unit level in the fourth quarter of each fiscal year and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount (a triggering event). A qualitative impairment assessment of relevant events and circumstances may be performed at any annual or interim period to determine whether a triggering event has occurred. A triggering event has occurred if an event or changes in circumstances occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The quantitative impairment test must be performed when the Company concludes that a triggering event has occurred as a result of a qualitative impairment assessment, or when the Company elects to skip the qualitative assessment at any annual or interim period and proceed directly to the quantitative impairment test. The first step of the quantitative impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill, at the impairment testing date. If the carrying amount of the reporting unit exceeds its calculated fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. Under the second step, an impairment loss is recognized equal to the amount of



the excess, if any, of the implied fair value of goodwill over its carrying amount, limited to the total amount of goodwill allocated to that reporting unit. A recognized impairment loss may not be subsequently reversed.

### ***Intangible assets***

Amortizing identifiable intangible assets generally represent the cost of client relationships, intellectual property, trademarks and research systems acquired. Amortizing identifiable intangible assets are assessed for impairment if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable (a triggering event). If a triggering event has occurred, a quantitative impairment assessment must be performed. If the quantitative impairment assessment indicates that the carrying amounts of those assets are not recoverable and exceed their respective fair values, an impairment loss is recognized equal to that excess. In valuing amortizing identifiable intangible assets, the Company makes assumptions regarding useful lives and projected growth rates, and significant judgment is required. A recognized impairment loss may not be subsequently reversed.

Non-amortizing intangible assets generally represent the cost of mutual fund management contracts acquired. Non-amortizing intangible assets are tested for impairment in the fourth quarter of each fiscal year and between annual tests if events or changes in circumstances indicate that they are more likely than not impaired (a triggering event). If a triggering event has occurred, the quantitative impairment test must be performed by comparing the fair values of the management contracts acquired to their carrying values. The Company establishes fair value for purposes of impairment testing using the income approach. If the carrying value of a management contract acquired exceeds its fair value, an impairment loss is recognized equal to that excess. A recognized impairment loss may not be subsequently reversed.

### ***Debt issuance costs***

Debt issuance costs related to the Company's term debt are included in debt in the Company's Consolidated Balance Sheets. Deferred debt issuance costs are amortized using the effective interest method over the related debt term. The amortization of deferred debt issuance costs is included in interest expense on the Company's Consolidated Statements of Income.

### ***Revenue recognition***

The Company earns revenue primarily by providing asset management services, distribution and underwriter services, and shareholder services to funds and separately managed accounts. Revenue is recognized for each distinct performance obligation identified in contracts with customers when the performance obligation has been satisfied by providing services to the customer either over time or at a point in time (which is when the customer obtains control of the service). Revenue recognized is the amount of variable or fixed consideration allocated to the satisfied performance obligation that the Company expects to be entitled to for providing such services to the customer (transaction price). Variable consideration is included in the transaction price only when it is probable that a significant reversal of such revenue will not occur or when the uncertainty associated with the variable consideration (constraint) is subsequently resolved. The majority of the fees earned by providing asset management, distribution and shareholder services represent variable consideration, as the fee is largely dependent on the value and composition of the associated assets under management. The value of assets under management fluctuates with changes in the market prices of securities held.

The timing of when the Company bills its customers and related payment terms vary in accordance with the agreed-upon contractual terms. Certain of the Company's customers are billed after the service is performed, which results in the recording of accounts receivable and accrued revenue. Deferred revenue is recorded in instances where a client is billed in advance.

#### *Management fees*

The Company is entitled to receive management fees in exchange for asset management services provided to funds that it sponsors and separate accounts managed for individual and institutional clients.

Management fees from funds sponsored by the Company are calculated principally as a percentage of average daily net assets, are earned daily upon completion of investment advisory and administrative service performance obligations, and are typically paid monthly from the assets of the fund. Management fees from separate accounts are calculated as a percentage of either beginning, average or ending monthly or quarterly net assets, are earned daily and are typically paid either monthly or quarterly from account assets. Performance fees received under certain fund and separate account management contracts are recognized into revenue when specified performance hurdles are met during the performance period.

The Company may contractually waive certain fees that it is otherwise entitled to receive for asset management services provided to funds that it sponsors. Separately, the Company may subsidize certain share classes of funds that it sponsors to ensure that operating expenses attributable to such share classes do not exceed a specified percentage. Fee waivers and fund subsidies are recognized as a reduction to management fee revenue.

#### *Distribution and underwriter fees*

The Company is entitled to receive distribution fees and underwriter commissions in exchange for distribution services provided to certain classes of shares of funds that it sponsors. Distribution services consist of distinct sales and marketing activities that are earned upon the sale of fund shares. Distribution fees for all share classes subject to these fees are calculated as a percentage of average daily net assets, and are typically paid monthly from the assets of the fund.

Underwriting commissions for all share classes subject to these fees are calculated as a percentage of the amount invested and are deducted from the amount invested by the purchasing fund shareholder. These commissions represent fixed consideration and are recognized as revenue when the fund shares are sold to the shareholder. Underwriter commissions are waived or reduced on purchases of shares that exceed specified minimum amounts.

#### *Service fees*

The Company is entitled to receive service fees in exchange for shareholder services provided to funds that it sponsors. Shareholder services consist of shareholder transaction processing and/or shareholder account maintenance services provided on a daily basis. Service fees are calculated as a percentage of average daily net assets under management, are earned daily upon completion of shareholder services and are typically paid monthly from the assets of the fund.

#### *Principal versus agent*

The Company has contractual arrangements with third parties involved in providing various services to funds that the Company sponsors, including sub-advisory, distribution and shareholder services. In instances where the Company has discretion to hire third-party service providers, the Company is generally deemed to control the services before transferring them to the fund, and accordingly presents

associated revenues gross of the related third-party costs. Alternatively, where the Company does not control the service, revenue is recorded net of payments to third-party service providers.

The Company controls the right to asset management services performed by third-party sub-advisers; therefore management fee revenue of sub-advised funds is recorded on a gross basis. Fees paid to sub-advisers are recognized as an expense when incurred and are included in fund-related expenses in the Company's Consolidated Statements of Income. The Company also controls the right to distribution and shareholder services performed by third-party financial intermediaries; therefore distribution and underwriter fees and service fees are also recorded on a gross basis. Fees paid to third parties for distribution and shareholder services are recognized as an expense when incurred and are included in distribution expense and service fee expense, respectively, in the Company's Consolidated Statements of Income.

### ***Leases***

Contracts are evaluated at inception to determine whether such contract is or contains a lease. The Company leases certain office space and equipment under non-cancelable operating leases. As leases expire, they are normally renewed or replaced in the ordinary course of business. Lease agreements may contain renewal options exercisable by the Company, rent escalation clauses and/or other incentives provided by the landlord. Renewal options that have been determined to be reasonably certain to be exercised are included in the lease term. Rights and obligations attributable to identified leases with a term in excess of twelve months are recognized on the Company's Consolidated Balance Sheet in the form of right-of-use (ROU) assets and lease liabilities are recognized as of the date the underlying assets are available for use, which may be the date the Company gains access to begin leasehold improvements. Lease payments related to short-term leases with a term of twelve months or less are recognized on a straight-line basis as short-term lease expense.

Lease liabilities are initially and subsequently measured as the present value of future lease payments over the lease term. For the purposes of this calculation, lease payments consist of fixed monthly lease payments related to use of the underlying assets and related services. Discount rates used in the calculation of present value reflect estimated incremental borrowing rates determined for each lease as of the lease commencement date or subsequently when the lease liability is re-measured, as applicable.

ROU assets are initially valued equal to the corresponding lease liabilities, adjusted for any lease incentives payable to the Company. Subsequently, the amortization of ROU assets is recognized as a component of operating lease expense. The total cost of operating leases is recognized on a straight-line basis over the life of the related leases, and is composed of imputed interest on lease liabilities measured using the effective interest method and amortization of the ROU asset. Variable lease payments are primarily related to services such as common-area maintenance and utilities, property taxes and insurance, and are recognized as variable lease expense when incurred.

ROU assets are tested for impairment whenever changes in facts or circumstances indicate that the carrying amount of an asset may not be recoverable. Modification of a lease term would result in re-measurement of the lease liability and a corresponding adjustment to the ROU asset.

### ***Earnings per share***

Basic earnings per share is calculated by dividing net income attributable to Eaton Vance Corp. shareholders by the weighted-average number of shares outstanding during the reporting period. Diluted earnings per share is calculated by dividing net income attributable to Eaton Vance Corp. shareholders by the weighted-average number of common shares outstanding during the period plus the dilutive effect of any potential common shares outstanding during the period as determined using the treasury stock method.

### ***Stock-based compensation***

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

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

### ***Foreign currency translation***

Substantially all of the Company's consolidated foreign subsidiaries have a functional currency that is something other than the U.S. dollar. Assets (including, but not limited to, investments held) and liabilities of these foreign subsidiaries are translated into U.S. dollars at current exchange rates as of the end of each accounting period. Related revenue and expenses are translated at average exchange rates in effect during the accounting period. Net currency translation adjustment gains and losses are excluded from income and recorded in accumulated other comprehensive loss until the Company's investment in a consolidated foreign subsidiary is sold or until investments held by the consolidated foreign subsidiary are sold, resulting in the complete or substantially complete liquidation of such subsidiary. Foreign currency transaction gains and losses are reflected in gains (losses) and other investment income, net, as they occur.

### ***Comprehensive income***

The Company reports all changes in comprehensive income in its Consolidated Statements of Comprehensive Income. Comprehensive income includes net income, unrealized gains and losses on certain derivatives designated as cash flow hedges, and related reclassification adjustments attributable to the amortization of net gains and losses on these derivatives and foreign currency translation adjustments, in each case net of tax. When the Company has established an indefinite reinvestment assertion for a foreign subsidiary, deferred income taxes are not provided on the related foreign currency translation.

### ***Non-controlling interests***

Non-redeemable non-controlling interests consist entirely of unvested interests granted to employees in the Atlanta Capital Long-Term Equity Incentive Plan (Atlanta Capital Plan, as described further in Note 13). These grants become subject to holder put rights upon vesting and are reclassified to temporary equity as vesting occurs.

Redeemable non-controlling interests include vested interests held by employees in the Atlanta Capital Plan and are recorded in temporary equity at estimated redemption value. Future payments to purchase these interests reduce temporary equity. Future changes in the redemption value of these interests are recognized as increases or decreases to additional paid-in capital. Redeemable non-controlling interests also include interests in the Company's consolidated sponsored funds, given that other investors in those funds may request withdrawals at any time.

### ***Loss contingencies***

The Company continuously reviews any investor, employee or vendor complaints and pending or threatened litigation. The Company evaluates the likelihood that a loss contingency exists under the criteria of applicable accounting standards through consultation with legal counsel and records a loss contingency, inclusive of legal costs, if the contingency is probable and reasonably estimable at the date of the financial statements. There are no losses of this nature that are currently deemed probable and reasonably estimable, and, thus, none have been recorded in the accompanying Consolidated Financial Statements.

## **2. New Accounting Standards Not Yet Adopted**

### ***Credit losses***

In June 2016, the Financial Accounting Standards Board (FASB) issued new guidance for the accounting for credit losses, which changes the impairment model for most financial assets. The new guidance adds an impairment model to U.S. GAAP that is based on current expected credit losses rather than incurred losses that applies to financial assets measured at amortized cost (e.g., trade receivables). The new guidance also made limited amendments to the impairment model for available-for-sale debt securities, including but not limited to eliminating the concept of other-than-temporary impairment from that model and requiring the use of an allowance approach. The new guidance is effective for the Company's fiscal year that began on November 1, 2020 and requires a modified retrospective approach to adoption. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements and related disclosures.

### ***Simplifying the test for goodwill impairment***

In January 2017, the FASB issued amended guidance that simplifies the test for goodwill impairment. The new guidance eliminates the second step of the quantitative goodwill impairment test. Under the amended guidance, a one-step quantitative impairment test is used to both identify the existence of goodwill impairment and to measure the amount of the goodwill impairment loss. Goodwill impairment loss is measured equal to the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value. However, the amount of goodwill impairment loss is limited to the total amount of goodwill allocated to that reporting unit. The new guidance does not affect an entity's option to first

perform a qualitative impairment assessment for a reporting unit at any annual or interim period to determine if the quantitative impairment test is necessary. The new guidance is effective for the Company's fiscal year that began on November 1, 2020 and requires a prospective approach to adoption. The Company intends to apply the new guidance for goodwill impairment testing beginning in fiscal 2021.

***Disclosure requirements for fair value measurement***

In August 2018, the FASB issued guidance that makes changes to the disclosure requirements for fair value measurements. The Company early adopted certain portions of this guidance related to the removal of certain fair value disclosure requirements. The remaining portions of this guidance that were not early adopted will be effective for the Company's fiscal year that began on November 1, 2020. Notably, this guidance removes the disclosure requirements for the valuation processes for Level 3 fair value measurements. This guidance also adds new disclosure requirements for the range and weighted average of significant unobservable inputs used to develop fair value measurements categorized within Level 3 of the fair value hierarchy. The Company does not expect the adoption of the remaining portions of this guidance to have a material impact on the disclosures to its Consolidated Financial Statements.

***Capitalization of implementation costs in a cloud computing service contract***

In August 2018, the FASB issued new guidance that aligns the accounting requirements for capitalizing implementation costs (implementation, setup and other upfront costs) related to cloud computing (hosting) arrangements that are accounted for as a service contract with the accounting requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This new guidance does not affect the accounting for the hosting (service) element of a cloud computing arrangement that is a service contract. The new guidance is effective for the Company's fiscal year that began on November 1, 2020. The Company intends to prospectively apply the new guidance to all implementation costs incurred after the date of adoption. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements and related disclosures.

**3. Cash, Cash Equivalents and Restricted Cash**

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported on the Company's Consolidated Balance Sheets that equal the total of the same such amounts presented in the Consolidated Statements of Cash Flows at October 31, 2020 and 2019:

| <i>(in thousands)</i>   | <b>2020</b> | <b>2019</b> |
|---|-------------|-------------|
| Cash and cash equivalents   | \$ 799,384  | \$ 557,668  |
| Restricted cash of consolidated sponsored funds<br>included in investments                                | 31,165      | 37,905      |
| Restricted cash included in assets of consolidated CLO<br>entities, cash                                  | 91,795      | 48,704      |
| Restricted cash included in other assets  | 14,322      | 9,068       |
| Total cash, cash equivalents and restricted cash presented<br>in the Consolidated Statement of Cash Flows | \$ 936,666  | \$ 653,345  |

#### 4. Investments

The following is a summary of investments at October 31, 2020 and 2019:

| <i>(in thousands)</i>   | 2020       | 2019         |
|---|------------|--------------|
| Investments held at fair value:                                 |            |              |
| Short-term debt securities                                      | \$ 269,802 | \$ 297,845   |
| Debt and equity securities held by consolidated sponsored funds | 376,098    | 514,072      |
| Debt and equity securities held in separately managed accounts  | 93,278     | 76,662       |
| Non-consolidated sponsored funds and other                      | 10,497     | 10,329       |
| Total investments held at fair value                            | 749,675    | 898,908      |
| Investments held at cost  | 20,928     | 20,904       |
| Investments in non-consolidated CLO entities                    | 1,116      | 1,417        |
| Investments in equity method investees                          | 11,527     | 139,510      |
| Total investments <sup>(1)</sup>                                | \$ 783,246 | \$ 1,060,739 |

<sup>(1)</sup> Excludes bank loans and other investments held by consolidated CLO entities, which are discussed in Note 6.

##### ***Investments held at fair value***

The Company recognized gains (losses) related to debt and equity securities held at fair value within gains and other investment income, net, in the Company's Consolidated Statements of Income at October 31, 2020, 2019 and 2018 as follows.

| <i>(in thousands)</i>                                       | 2020        | 2019      | 2018        |
|---|-------------|-----------|-------------|
| Realized gains (losses) on securities sold                  | \$ (6,223)  | \$ (505)  | \$ 6,951    |
| Unrealized gains (losses) on investments held at fair value | (13,580)    | 20,416    | (22,814)    |
| Net gains (losses) on investments held at fair value        | \$ (19,803) | \$ 19,911 | \$ (15,863) |

##### ***Investments held at cost***

Investments held at cost primarily include the Company's equity investment in a wealth management technology firm. At both October 31, 2020 and 2019, the carrying value of the Company's investment in the wealth management technology firm was \$19.0 million.

##### ***Investments in non-consolidated CLO entities***

The Company provides investment management services for, and has made direct investments in, CLO entities that it does not consolidate, as described further in Note 6. The Company's investments in non-consolidated CLO entities are carried at amortized cost unless impaired, at which point they are written down to fair value. At October 31, 2020 and 2019, the carrying values of such investments were \$1.1 million and \$1.4 million, respectively. At October 31, 2020 and 2019, combined assets under management in the pools of non-consolidated CLO entities were both \$0.4 billion.

The Company did not recognize any impairment losses related to the investments in non-consolidated CLO entities for the years ended October 31, 2020 and 2019. The Company recognized \$0.2 million of

impairment losses related to investments in non-consolidated CLO entities for the year ended October 31, 2018.

***Investments in equity method investees***

The Company has a 49 percent interest in Hexavest Inc. (Hexavest), a Montreal, Canada-based investment adviser. During fiscal 2020, Hexavest experienced a decline in managed assets and associated management fee revenue driven by declining market prices of managed assets and client withdrawals, which translated into a decline in the fair value of our investment to \$32.7 million and \$11.4 million at July 31, 2020 and October 31, 2020, respectively. The Company determined that the decline in fair value as of both these dates was other-than-temporary due to the significant difference between the carrying values and the estimated fair values of the investment. Accordingly, the Company recognized other-than-temporary impairment charges of \$100.5 million and \$21.7 million as of July 31, 2020 and October 31, 2020, respectively (\$122.2 million in total) to write down the carrying amount of its investment in Hexavest to fair value at each date. The impairments were recorded as a component of equity in net income (loss) of affiliates, net of tax, in the Company's Consolidated Statement of Income.

The fair value of the Company's investment in Hexavest was estimated as of June 30, 2020 (for the Company's third fiscal quarter) and October 31, 2020 utilizing two equally weighted valuation techniques, which included a discounted cash flow methodology under the income approach and a guideline public company methodology under the market approach (level 3 fair value measurements). The same valuation techniques were used for both periods; valuations were prepared with the assistance of an independent valuation firm and approved by management. At June 30, 2020, the discounted cash flow methodology estimated future cash flows of Hexavest using revenue forecasts developed at the individual customer level, a long-term projected revenue growth rate of 3 percent and a discount rate of 14.5 percent. The market approach ascribed a value to equity interests in Hexavest by applying a multiple to earnings before interest, taxes, depreciation, and amortization (EBITDA). A multiple of 6.5 times Hexavest's projected fiscal 2021 EBITDA was used for the June 30, 2020 valuation. A second valuation of the investment was performed as of October 31, 2020 due to additional outflows experienced by Hexavest which were not anticipated in the discounted cash flows used to value the investment in the third quarter. The second valuation maintained the revenue growth rate at 3 percent and increased the discount rate to 17.0 percent for the discounted cash flow model. A multiple of 6.0 times projected fiscal 2021 EBITDA was used for the market approach as of October 31, 2020.

The impairment charge was allocated to investor basis differences using the fair value method. The new basis differences are summarized in the table below.

| <i>(in thousands)</i>            | <b>2020</b>      | <b>2019</b>       |
|----------------------------------|------------------|-------------------|
| Equity in net assets of Hexavest | \$ 7,914         | \$ 5,466          |
| Definite-lived intangible assets | 4,668            | 19,486            |
| Goodwill                         | -                | 116,319           |
| Deferred tax liability           | (1,226)          | (5,243)           |
| <b>Total carrying value</b>      | <b>\$ 11,356</b> | <b>\$ 136,028</b> |

The Company's investment in Hexavest is denominated in Canadian dollars and is subject to foreign currency translation adjustments, which are recorded in accumulated other comprehensive income (loss).



The Company also has a seven percent equity interest in a private equity partnership managed by a third party that invests in companies in the financial services industry. At October 31, 2020 and 2019, the carrying value of this investment was \$0.2 million and \$3.5 million, respectively.

During the years ended October 31, 2020, 2019 and 2018, the Company received dividends of \$7.4 million, \$10.9 million and \$12.2 million, respectively, from its investments in equity method investees.

## 5. Derivative Financial Instruments

The Company utilizes derivative financial instruments to hedge market and currency risks associated with its investments in certain consolidated seed investments that are not designated as hedging instruments for accounting purposes.

Excluding derivative financial instruments held by consolidated sponsored funds, the Company was party to the following derivative financial instruments at October 31, 2020 and 2019:

|                                 | 2020                |                                 | 2019                |                                 |
|---------------------------------|---------------------|---------------------------------|---------------------|---------------------------------|
|                                 | Number of Contracts | Notional Value<br>(in millions) | Number of Contracts | Notional Value<br>(in millions) |
| Stock index futures contracts   | 997                 | \$ 85.5                         | 1,370               | \$ 108.3                        |
| Total return swap contracts     | 2                   | 87.0                            | 2                   | 84.0                            |
| Interest rate swap contracts    | -                   | -                               | 6                   | 24.4                            |
| Credit default swap contracts   | 1                   | 18.8                            | 1                   | 8.0                             |
| Foreign exchange contracts      | 14                  | 11.5                            | 26                  | 56.4                            |
| Commodity futures contracts     | -                   | -                               | 415                 | 15.2                            |
| Currency futures contracts      | -                   | -                               | 231                 | 24.0                            |
| Interest rate futures contracts | 53                  | 7.0                             | 151                 | 22.3                            |

The derivative contracts outstanding and associated notional values at October 31, 2020 and 2019 are representative of derivative balances throughout each respective year. The weighted-average remaining contract term for derivative contracts outstanding at October 31, 2020 and 2019 was 3.8 months and 6.3 months, respectively.

The Company has elected not to offset fair value amounts related to derivative financial instruments executed with the same counterparty under master netting arrangements; as a result, the Company records all derivative financial instruments as either other assets or other liabilities, gross, on its Consolidated Balance Sheets and measures them at fair value (see Note 1). The following table presents the fair value of derivative financial instruments not designated for hedge accounting and how they are reflected on the Company's Consolidated Balance Sheets as of October 31, 2020 and 2019:

| <i>(in thousands)</i>           | 2020            |                   | 2019            |                   |
|---------------------------------|-----------------|-------------------|-----------------|-------------------|
|                                 | Other Assets    | Other Liabilities | Other Assets    | Other Liabilities |
| Stock index futures contracts   | \$ 2,725        | \$ 134            | \$ 615          | \$ 1,841          |
| Total return swap contracts     | 732             | 989               | 396             | 114               |
| Interest rate swap contracts    | -               | -                 | 61              | 235               |
| Credit default swap contracts   | 1,038           | -                 | 360             | -                 |
| Foreign exchange contracts      | 62              | 156               | 51              | 615               |
| Commodity futures contracts     | -               | -                 | 319             | 334               |
| Currency futures contracts      | -               | -                 | 128             | 153               |
| Interest rate futures contracts | 23              | -                 | 144             | 22                |
| <b>Total</b>                    | <b>\$ 4,580</b> | <b>\$ 1,279</b>   | <b>\$ 2,074</b> | <b>\$ 3,314</b>   |

The Company may provide cash collateral to, or receive cash collateral from, certain counterparties to satisfy margin requirements for derivative positions that are classified as restricted cash. At October 31, 2020 and 2019, restricted cash collateral balances for derivative positions included in other assets on the Company's Consolidated Balance Sheets were \$12.8 million and \$7.5 million, respectively. At October 31, 2020, payables to counterparties for collateral balances received related to derivative positions included in other liabilities on the Company's Consolidated Balance Sheet were \$0.7 million. The Company did not have any payables to counterparties for collateral balances received related to derivative positions at October 31, 2019.

The Company recognized the following gains (losses) on derivative financial instruments during the years ended October 31, 2020, 2019 and 2018 within gains (losses) and other investment income, net, on the Company's Consolidated Statements of Income:

| <i>(in thousands)</i>           | 2020            | 2019               | 2018          |
|---------------------------------|-----------------|--------------------|---------------|
| Stock index futures contracts   | \$ 2,579        | \$ (6,701)         | \$ 4,267      |
| Total return swap contracts     | 230             | (5,535)            | (2,708)       |
| Interest rate swap contracts    | (167)           | (248)              | -             |
| Credit default swap contracts   | 445             | (251)              | 178           |
| Foreign exchange contracts      | 407             | (1,749)            | (51)          |
| Commodity futures contracts     | 1,027           | 531                | (1,044)       |
| Currency futures contracts      | 832             | 442                | (24)          |
| Interest rate futures contracts | (71)            | (2,402)            | 366           |
| <b>Net gains (losses)</b>       | <b>\$ 5,282</b> | <b>\$ (15,913)</b> | <b>\$ 984</b> |

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

## 6. Variable Interest Entities

### *Investments in VIEs that are consolidated*

In the normal course of business, the Company maintains investments in sponsored entities that are considered VIEs to support their launch and marketing. The Company consolidates these sponsored entities if it is the primary beneficiary of the VIE.

#### *Consolidated sponsored funds*

The Company invests in sponsored investment companies that meet the definition of a VIE. Underlying investments held by consolidated sponsored funds consist of debt and equity securities and are included in the reported amount of investments on the Company's Consolidated Balance Sheets at October 31, 2020 and 2019. Net investment income or (loss) related to consolidated sponsored funds was included in gains and other investment income, net, on the Company's Consolidated Statements of Income for all periods presented. The impact of consolidated sponsored funds' net income or (loss) on net income attributable to Eaton Vance Corp. shareholders was reduced by amounts attributable to non-controlling interest holders, which are recorded in net (income) loss attributable to non-controlling and other beneficial interests on the Company's Consolidated Statements of Income for all periods presented. The extent of the Company's exposure to loss with respect to a consolidated sponsored fund is limited to the amount of the Company's investment in the sponsored fund and any uncollected management and performance fees. The Company is not obligated to provide financial support to sponsored funds. Only the assets of a sponsored fund are available to settle its obligations. Other beneficial interest holders of sponsored funds do not have recourse to the general credit of the Company.

The Company consolidated 17 sponsored funds as of October 31, 2020 and 19 sponsored funds as of October 31, 2019. The following table sets forth the aggregate balances related to these funds as well as the Company's net interest in these funds at October 31, 2020 and 2019:

| <i>(in thousands)</i>                        | <b>2020</b> | <b>2019</b> |
|--|-------------|-------------|
| Investments                                  | \$ 376,098  | \$ 514,072  |
| Other assets                                 | 9,407       | 16,846      |
| Other liabilities                            | (10,017)    | (35,488)    |
| Redeemable non-controlling interests         | (195,451)   | (260,681)   |
| Net interest in consolidated sponsored funds | \$ 180,037  | \$ 234,749  |

#### *Consolidated CLO entities*

As of October 31, 2020, the Company deemed itself to be the primary beneficiary of four non-recourse securitized CLO entities, namely, Eaton Vance CLO 2020-1 (CLO 2020-1), Eaton Vance CLO 2019-1 (CLO 2019-1), Eaton Vance CLO 2014-1R (CLO 2014-1R), and Eaton Vance CLO 2013-1 (CLO 2013-1) (collectively, the consolidated securitized CLO entities), and one non-recourse warehouse CLO entity, namely, Eaton Vance CLO 2020-2 (CLO 2020-2). As of October 31, 2019, the Company deemed itself to be the primary beneficiary of four non-recourse securitized CLO entities, namely, CLO 2019-1, Eaton Vance CLO 2018-1 (CLO 2018-1), CLO 2014-1R and CLO 2013-1.

The assets of consolidated CLO entities are held solely as collateral to satisfy the obligations of each entity. The Company has no right to receive benefits from, nor does the Company bear the risks associated with, the assets held by these CLO entities beyond the Company's investment in these entities. In the event of default, recourse to the Company is limited to its investment in these entities. The Company has not provided any financial or other support to these entities that it was not previously contractually required to provide, and there are neither explicit arrangements nor does the Company hold implicit variable interests that could require the Company to provide any ongoing financial support to these entities. Other beneficial interest holders of consolidated CLO entities do not have any recourse to the Company's general credit. The Company reports the financial results of consolidated securitized CLO entities on a one-month lag, based upon the availability of financial information. The financial information of consolidated warehouse CLO entities is reported as of the end of the Company's fiscal period.

#### *Consolidated warehouse CLO entity*

The Company established CLO 2020-2 as a warehousing phase CLO entity on September 28, 2020. The Company entered into a credit facility agreement with a third-party lender to provide CLO 2020-2 with a non-recourse revolving line of credit of up to \$160.0 million upon inception of the entity. The Company contributed a total of \$40.0 million in capital to the CLO 2020-2 warehouse during the year ended October 31, 2020. CLO 2020-2 entered the securitization phase in the fourth fiscal quarter, but did not close prior to October 31, 2020.

While in the warehousing phase, the Company, acting as collateral manager and subject to the approval of the CLO entity's third-party lender, used its capital contributions along with the proceeds from the revolving line of credit to accumulate a portfolio of commercial bank loan investments in open-market purchases in an amount sufficient for future securitization. The line of credit is secured by the commercial bank loan investments held by the warehouse and initially bears interest at a rate of daily LIBOR plus 1.3 percent per annum, with such interest rate increasing to daily LIBOR plus 2.0 percent per annum in September 2021. There were \$43.6 million in outstanding borrowings against the line of credit as of October 31, 2020. The Company does not earn any collateral management fees from CLO 2020-2 during the warehousing phase and will continue to be the collateral manager of the CLO entity during the securitization phase.

As collateral manager, the Company has the unilateral ability to liquidate the CLO 2020-2 warehouse without cause, a right that, by definition, provides the Company with the power to direct the activities that most significantly affect the economic performance of the entity. The Company's investment in the warehouse serves as first-loss protection to the third-party lender and provides the Company with an obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the entity. Accordingly, the Company deems itself to be the primary beneficiary of CLO 2020-2, as it has both power and economics, and began consolidating the entity from establishment of the warehouse on September 28, 2020.

#### *Subsequent event – CLO 2020-2 securitization*

The securitization of CLO 2020-2 closed on November 3, 2020. Upon closing, proceeds from the issuance of senior and subordinated note obligations were used to purchase the warehouse bank loans, repay the third-party revolving line of credit and return the Company's total capital contributions of \$40.0 million. The Company acquired 100 percent of the subordinated notes issued by CLO 2020-2 at closing for \$34.5 million and will provide collateral management services to this CLO entity in exchange for a collateral management fee. The Company deems itself to be the primary beneficiary of CLO 2020-2, as it has both

power and economics, and began consolidating the securitized entity at closing. CLO 2020-2 had total assets of approximately \$400 million at closing.

*Consolidated securitized CLO entities*

As of October 31, 2020, the Company continued to deem itself to be the primary beneficiary of CLO 2020-1, CLO 2019-1, CLO 2014-1R and CLO 2013-1, as it has both power and economics by virtue of its role as collateral manager and the Company's 100 percent interest in the subordinated notes of these entities.

The Company established CLO 2020-1 as a warehousing phase CLO entity on July 13, 2020, and consolidated CLO 2020-1 during the warehousing phase. In the fourth quarter of fiscal 2020, CLO 2020-1 entered the securitization phase. Contemporaneous with the close of the CLO 2020-1 securitization on August 25, 2020, the proceeds from the issuance of senior and subordinated note obligations were used to purchase the portfolio bank loans held by the CLO 2020-1 warehouse, repay a third-party revolving line of credit provided to the CLO 2020-1 warehouse and return the Company's \$30.0 million of capital contributions to the warehouse. The Company acquired 100 percent of the subordinated notes issued by CLO 2020-1 at closing for \$39.5 million and will provide collateral management services to this CLO entity in exchange for a collateral management fee. The Company deemed itself to be the primary beneficiary of CLO 2020-1 upon acquiring 100 percent of the subordinated interests of CLO 2020-1 on August 25, 2020 and began consolidating the entity as of that date.

On January 15, 2020, the Company sold its 93 percent interest in the subordinated notes of CLO 2018-1 to an unrelated third party for \$27.3 million and recognized a loss of \$7.2 million upon the sale. The loss is included within gains and other investment income, net, of consolidated CLO entities in the Company's Consolidated Statement of Income for the twelve months ended October 31, 2020. Although the Company continues to serve as collateral manager of the entity, the Company concluded that, subsequent to the sale of the subordinated notes, it no longer has an obligation to absorb the losses of, or the rights to receive benefits from, CLO 2018-1 that could potentially be significant to the entity. As a result, the Company concluded that it was no longer the primary beneficiary of CLO 2018-1 upon the sale of the subordinated interests of the entity on January 15, 2020 and deconsolidated the entity as of that date.

The Company applies the measurement alternative to ASC 820 for collateralized financing entities upon initial consolidation and for subsequent measurement of securitized CLO entities consolidated by the Company. The Company determined that the fair value of the financial assets of these entities is more observable than the fair value of the financial liabilities. Through the application of the measurement alternative, the fair value of the financial liabilities of these entities is measured as the difference between the fair value of the financial assets and the fair value of the Company's beneficial interests in these entities, which include the subordinated interests held by the Company and any accrued management fees due to the Company. The fair value of the subordinated notes held by the Company is determined primarily based on an income approach, which projects the cash flows of the CLO assets using projected default, prepayment, recovery and discount rates, as well as observable assumptions about market yields, callability and other market factors. An appropriate discount rate is then applied to determine the discounted cash flow valuation of the subordinated notes. Aggregate disclosures for the securitized CLO entities consolidated by the Company as of October 31, 2020 and 2019 are provided below.

The following table presents the balances attributable to the consolidated securitized CLO entities and the consolidated warehouse CLO entity that were included on the Company's Consolidated Balance Sheets at October 31, 2020 and 2019:

| <i>(in thousands)</i>                            | 2020  |   | 2019  |  |
|--|---|---|---|--|
|  | Consolidated<br>Securitized CLO<br>Entities | Consolidated<br>Warehouse CLO<br>Entity | Consolidated<br>Securitized CLO<br>Entities |  |
| <b>Assets of consolidated CLO entities:</b>      |   |   |   |  |
| Cash   | \$ 91,458                                   | \$ 337                                  | \$ 48,704                                   |  |
| Bank loans and other investments                 | 1,698,155                                   | 365,978                                 | 1,704,270                                   |  |
| Receivable for pending bank loan sales           | 23,885                                      | -                                       | 24,193                                      |  |
| Other assets                                     | 3,683                                       | 476                                     | 3,846                                       |  |
| <b>Liabilities of consolidated CLO entities:</b> |   |   |   |  |
| Senior and subordinated note obligations         | 1,616,243                                   | -                                       | 1,617,095                                   |  |
| Line of credit                                   | -   | 43,625                                  | -   |  |
| Payable for pending bank loan purchases          | 108,178                                     | 284,270                                 | 33,985                                      |  |
| Other liabilities                                | 7,095                                       | 19                                      | 17,137                                      |  |
| Total beneficial interests                       | \$ 85,665                                   | \$ 38,877                               | \$ 112,796                                  |  |

Although the Company's beneficial interests in the consolidated securitized CLO entities are eliminated upon consolidation, the application of the measurement alternative results in the Company's total beneficial interests in these entities of \$85.7 million and \$112.8 million at October 31, 2020 and 2019, respectively, being equal to the net amount of the consolidated CLO entities' assets and liabilities included on the Company's Consolidated Balance Sheets.

The assets of consolidated CLOs primarily consist of senior secured bank loan investments that are diversified by industry, mature at various dates between 2020 and 2029, and pay interest at LIBOR plus a spread of up to 13.8 percent. Approximately 0.8 percent of the collateral assets held by consolidated CLO entities were in default as of October 31, 2020. Additional disclosure of the fair values of assets and liabilities of consolidated CLO entities that are measured at fair value on a recurring basis is included in Note 7.

The consolidated securitized CLO entities held notes payable with a total par value of \$1.8 billion at October 31, 2020, consisting of senior secured floating-rate notes payable with a par value of \$1.6 billion and subordinated notes with a par value of \$162.1 million. These note obligations bear interest at variable rates based on LIBOR plus a pre-defined spread ranging from 0.7 percent to 8.5 percent. The principal amounts outstanding of these note obligations mature on dates ranging from January 2028 to April 2031.

The following table presents the balances attributable to consolidated securitized CLO entities included in the Company's Consolidated Statements of Income for the years ended October 31, 2020, 2019, and 2018:

| <i>(in thousands)</i>                                       | <b>Consolidated Securitized CLO Entities</b> |                 |                   |
|---|--|-----------------|-------------------|
|   | <b>2020</b>                                  | <b>2019</b>     | <b>2018</b>       |
| <b>Other income (expense) of consolidated CLO entities:</b> |  |                 |                   |
| Gains and other investment income, net                      | \$ 36,527                                    | \$ 66,964       | \$ 10,264         |
| Interest and other expense                                  | (55,104)                                     | (57,860)        | (11,796)          |
| <b>Net gain (loss) attributable to the Company</b>          | <b>\$ (18,577)</b>                           | <b>\$ 9,104</b> | <b>\$ (1,532)</b> |

The Company recognized net gains (losses) from consolidated warehouse CLO entities of \$(0.5) million, \$1.8 million and \$3.1 million for the twelve months ended October 31, 2020, 2019 and 2018, respectively.

As summarized in the table below, the application of the measurement alternative results in the Company's earnings from consolidated securitized CLO entities subsequent to initial consolidation, as shown above, to be equivalent to the Company's own economic interests in these entities:

| <i>(in thousands)</i>   | <b>Consolidated Securitized CLO Entities</b> |                 |                   |
|---|--|-----------------|-------------------|
|   | <b>2020</b>                                  | <b>2019</b>     | <b>2018</b>       |
| <b>Economic interests in Consolidated Securitized CLO Entities:</b>   |  |                 |                   |
| Distributions received and unrealized gains (losses) on the senior and subordinated interests held by the Company | \$ (24,939)                                  | \$ 3,266        | \$ (2,319)        |
| Management fees   | 6,362  | 5,838           | 787               |
| <b>Total economic interests</b>   | <b>\$ (18,577)</b>                           | <b>\$ 9,104</b> | <b>\$ (1,532)</b> |

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

##### *Sponsored funds*

The Company classifies its investments in certain sponsored funds that are considered VIEs as equity securities when it is not considered the primary beneficiary of these VIEs. The Company provides aggregated disclosures with respect to these non-consolidated sponsored fund VIEs in Note 4 and Note 7.

##### *Non-consolidated CLO entities*

The Company is not deemed the primary beneficiary of certain CLO entities in which it holds variable interests and is the collateral manager of the entity. In developing its conclusion that it is not the primary beneficiary of these entities, the Company determined that, although it has variable interests in each such CLO by virtue of its beneficial ownership interest, these interests neither individually nor in the aggregate represent an obligation to absorb losses of, or a right to receive benefits from, any such entity that could potentially be significant to that entity.

The Company's maximum exposure to loss with respect to these non-consolidated CLO entities is limited to the carrying value of its investments in, and collateral management fees receivable from, these entities as of October 31, 2020. The Company held investments in these entities totaling \$1.1 million and \$1.4 million as of October 31, 2020 and 2019, respectively. Collateral management fees receivable for these entities totaled \$0.1 million on both October 31, 2020 and 2019. Other investors in these CLO entities have no recourse against the Company for any losses sustained. The Company did not provide any financial or

other support to these entities that it was not previously contractually required to provide in any of the fiscal periods presented. Income from these entities is recorded as a component of gains (losses) and other investment income, net, in the Company's Consolidated Statements of Income, based upon projected investment yields. Additional information regarding the Company's investment in non-consolidated CLO entities, as well as the combined assets under management in the pools of non-consolidated CLO entities, is included in Note 4.

#### *Other entities*

The Company holds variable interests in, but is not deemed to be the primary beneficiary of, certain sponsored privately offered equity funds with total assets of \$31.7 billion and \$26.3 billion as of October 31, 2020 and 2019, respectively. The Company's variable interests in these entities consist of the Company's direct ownership therein, which in each case is insignificant relative to the total ownership of the fund, and any investment advisory fees earned but uncollected. The Company's maximum exposure to loss with respect to these managed entities is limited to the carrying value of its investments in, and investment advisory fees receivable from, these entities as of October 31, 2020. The Company held investments in these entities totaling \$0.6 million and \$0.5 million on October 31, 2020 and 2019, respectively, and investment advisory fees receivable totaling \$2.0 million and \$1.3 million on October 31, 2020 and 2019, respectively. The Company did not provide any financial or other support to these entities that it was not contractually required to provide in any of the periods presented. The Company does not consolidate these VIEs because it does not have the obligation to absorb losses of, or the right to receive benefits from, these VIEs that could potentially be significant to these VIEs.

The Company's investments in privately offered equity funds are carried at fair value and included in non-consolidated sponsored funds and other, which are disclosed as a component of investments in Note 4.

The Company also holds a variable interest in, but is not deemed to be the primary beneficiary of, a private equity partnership managed by a third party that invests in companies in the financial services industry. The Company's variable interest in this entity consists of the Company's direct ownership in the private equity partnership, equal to \$0.2 million and \$3.5 million on October 31, 2020 and 2019, respectively. The Company did not provide any financial or other support to this entity. The Company's risk of loss with respect to the private equity partnership is limited to the carrying value of its investment in the entity as of October 31, 2020. The Company does not consolidate this VIE because the Company does not hold the power to direct the activities that most significantly affect the VIE.

The Company's investment in the private equity partnership is accounted for as an equity method investment and disclosures related to this entity are included in Note 4 under the heading Investments in equity method investees.



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

The following tables summarize financial assets and liabilities measured at fair value on a recurring basis and their assigned levels within the valuation hierarchy at October 31, 2020 and 2019:

### October 31, 2020

| <i>(in thousands)</i>  | Level 1           | Level 2             | Level 3       | Other<br>Assets Not<br>Held at Fair<br>Value | Total               |
|--|-------------------|---------------------|---------------|--|---------------------|
| <b>Financial assets:</b>                                       |                   |                     |               |  |                     |
| Cash equivalents   | \$ 9,052          | \$ 281,992          | \$ -          | \$ -   | \$ 291,044          |
| Investments held at fair value:                                |                   |                     |               |  |                     |
| Debt securities:   |                   |                     |               |  |                     |
| Short-term   | -                 | 269,802             | -             | -  | 269,802             |
| Held by consolidated sponsored funds                           | -                 | 180,588             | -             | -  | 180,588             |
| Held in separately managed accounts                            | -                 | 58,252              | -             | -  | 58,252              |
| Equity securities:   |                   |                     |               |  |                     |
| Held by consolidated sponsored funds                           | 60,308            | 135,202             | -             | -  | 195,510             |
| Held in separately managed accounts                            | 34,925            | 101                 | -             | -  | 35,026              |
| Non-consolidated sponsored funds<br>and other                  | 9,848             | 649                 | -             | -  | 10,497              |
| Investments held at cost <sup>(1)</sup>                        | -                 | -                   | -             | 20,928                                       | 20,928              |
| Investments in non-consolidated CLO<br>entities <sup>(2)</sup> | -                 | -                   | -             | 1,116  | 1,116               |
| Investments in equity method investees <sup>(1)(3)</sup>       | -                 | -                   | -             | 11,527                                       | 11,527              |
| Derivative instruments   | -                 | 4,581               | -             | -  | 4,581               |
| Assets of consolidated CLO entities:                           |                   |                     |               |  |                     |
| Bank loans and other investments                               | -                 | 2,063,423           | 710           | -  | 2,064,133           |
| <b>Total financial assets</b>                                  | <b>\$ 114,133</b> | <b>\$ 2,994,590</b> | <b>\$ 710</b> | <b>\$ 33,571</b>                             | <b>\$ 3,143,004</b> |
| <b>Financial liabilities:</b>                                  |                   |                     |               |  |                     |
| Derivative instruments   | \$ -              | \$ 1,279            | \$ -          | \$ -   | \$ 1,279            |
| Liabilities of consolidated CLO entities:                      |                   |                     |               |  |                     |
| Senior and subordinated note obligations                       | -                 | 1,616,243           | -             | -  | 1,616,243           |
| <b>Total financial liabilities</b>                             | <b>\$ -</b>       | <b>\$ 1,617,522</b> | <b>\$ -</b>   | <b>\$ -</b>                                  | <b>\$ 1,617,522</b> |

October 31, 2019

| <i>(in thousands)</i>  | Level 1           | Level 2             | Level 3         | Other<br>Assets Not<br>Held at<br>Fair Value | Total               |
|--|-------------------|---------------------|-----------------|--|---------------------|
| <b>Financial assets:</b>                                       |                   |                     |                 |  |                     |
| Cash equivalents   | \$ 24,640         | \$ 157,267          | \$ -            | \$ -   | \$ 181,907          |
| Investments held at fair value:                                |                   |                     |                 |  |                     |
| Debt securities:   |                   |                     |                 |  |                     |
| Short-term   | -                 | 297,845             | -               | -  | 297,845             |
| Held by consolidated sponsored funds                           | -                 | 330,966             | -               | -  | 330,966             |
| Held in separately managed accounts                            | -                 | 55,426              | -               | -  | 55,426              |
| Equity securities:   |                   |                     |                 |  |                     |
| Held by consolidated sponsored funds                           | 70,646            | 112,460             | -               | -  | 183,106             |
| Held in separately managed accounts                            | 21,168            | 68                  | -               | -  | 21,236              |
| Non-consolidated sponsored funds<br>and other                  | 9,814             | 515                 | -               | -  | 10,329              |
| Investments held at cost <sup>(1)</sup>                        | -                 | -                   | -               | 20,904                                       | 20,904              |
| Investments in non-consolidated CLO<br>entities <sup>(2)</sup> | -                 | -                   | -               | 1,417  | 1,417               |
| Investments in equity method investees <sup>(1)</sup>          | -                 | -                   | -               | 139,510                                      | 139,510             |
| Derivative instruments   | -                 | 2,075               | -               | -  | 2,075               |
| Assets of consolidated CLO entities:                           |                   |                     |                 |  |                     |
| Bank loan investments  | -                 | 1,702,769           | 1,501           | -  | 1,704,270           |
| <b>Total financial assets</b>                                  | <b>\$ 126,268</b> | <b>\$ 2,659,391</b> | <b>\$ 1,501</b> | <b>\$ 161,831</b>                            | <b>\$ 2,948,991</b> |
| <b>Financial liabilities:</b>                                  |                   |                     |                 |  |                     |
| Derivative instruments   | \$ -              | \$ 3,314            | \$ -            | \$ -   | \$ 3,314            |
| Liabilities of consolidated CLO entities:                      |                   |                     |                 |  |                     |
| Senior and subordinated note                                   | -                 | 1,617,095           | -               | -  | 1,617,095           |
| <b>Total financial liabilities</b>                             | <b>\$ -</b>       | <b>\$ 1,620,409</b> | <b>\$ -</b>     | <b>\$ -</b>                                  | <b>\$ 1,620,409</b> |

<sup>(1)</sup> These investments are not measured at fair value in accordance with U.S. GAAP.

<sup>(2)</sup> Investments in non-consolidated CLO entities are carried at amortized cost unless facts or circumstances indicate that the investments have been impaired, at which time the investments are written down to fair value as measured using Level 3 inputs.

<sup>(3)</sup> The reported amount of investments in equity method investees primarily includes the Company's investment in Hexavest. As discussed further in Note 4, in fiscal 2020 the Company recognized an other-than-temporary impairment charge to write down the carrying amount of this investment to its fair value of \$11.4 million. The recognition of this impairment resulted in a new cost basis to which the equity method of accounting will continue to be applied.

A description of the valuation techniques and the inputs used in recurring fair value measurements is included immediately below. There have been no changes in the Company's valuation techniques in the current reporting period.

#### *Cash equivalents*

Cash equivalents include positions in money market mutual funds, holdings of Treasury and government agency securities, certificates of deposit and commercial paper with remaining maturities of less than three months, as determined at purchase. Cash investments in daily redeemable money market mutual

funds are valued using published net asset values and are categorized as Level 1 within the fair value measurement hierarchy. Holdings of Treasury and government agency securities are valued based upon quoted market prices for similar assets in active markets, quoted prices for identical or similar assets that are not active, and inputs other than quoted prices that are observable or corroborated by observable market data. The carrying amounts of certificates of deposit and commercial paper are measured at amortized cost, which approximates fair value due to the short time between the purchase and expected maturity of these investments. Depending on the categorization of the significant inputs, these assets are generally categorized in their entirety as Level 1 or 2 within the fair value measurement hierarchy.

#### *Debt securities held at fair value*

Debt securities held at fair value consist of certificates of deposit, commercial paper and corporate debt obligations with remaining maturities of three months to 12 months upon purchase by the Company, as well as investments in debt securities held in consolidated sponsored funds and separately managed accounts.

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

Debt securities held in consolidated sponsored funds and separately managed accounts are generally valued on the basis of valuations provided by third-party pricing services as described above for short-term debt securities. Debt securities purchased with a remaining maturity of 60 days or less (excluding those that are non-U.S. denominated, which typically are valued by a third-party pricing service or dealer quotes) are generally valued at amortized cost, which approximates fair value. Depending on the categorization of the significant inputs, debt securities held in consolidated sponsored funds are generally categorized in their entirety as Level 1 or 2 within the fair value measurement hierarchy.

#### *Equity securities held at fair value*

Equity securities measured at fair value on a recurring basis consist of domestic and foreign equity securities held in consolidated sponsored funds and separately managed accounts and investments in non-consolidated funds.

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

Equity investments in non-consolidated mutual funds are valued using the published net asset value per share and are classified as Level 1 within the fair value measurement hierarchy. Sponsored private open-

end funds are not listed on an active exchange but calculate a net asset value per share (or equivalent) as of the Company's reporting date in a manner consistent with mutual funds. The Company's investments therein do not have any redemption restrictions and are not probable of being sold at an amount different from their calculated net asset value per share (or equivalent). Accordingly, investments in sponsored private open-end funds are measured at fair value based on the net asset value per share (or equivalent) of the investment and are categorized as Level 2 within the fair value measurement hierarchy. The Company does not have any unfunded commitments related to investments in sponsored private open-end funds at October 31, 2020 and 2019.

#### *Derivative instruments*

Derivative instruments, further discussed in Note 5, are recorded as either other assets or other liabilities on the Company's Consolidated Balance Sheets. Futures and swap contracts are valued using a third-party pricing service that determines fair value based on bid and ask prices. Foreign exchange contracts are valued by interpolating a value using the spot foreign exchange rate and forward points, which are based on spot rates and currency interest rate differentials. Derivative instruments generally are classified as Level 2 within the fair value measurement hierarchy.

#### *Assets of consolidated CLO entities*

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

#### *Liabilities of consolidated CLO entities*

Consolidated CLO entity liabilities include senior and subordinated note obligations. Fair value is determined using the measurement alternative to ASC 820 for collateralized financing entities. In accordance with the measurement alternative, the fair value of CLO liabilities was measured as the fair value of CLO assets less the sum of (1) the fair value of the beneficial interests held by the Company and (2) the carrying value of any beneficial interests that represent compensation for services. Although both Level 2 and Level 3 inputs were used to measure the fair value of the CLO liabilities, the senior note obligations are classified as Level 2 within the fair value measurement hierarchy, as the Level 3 inputs used were not significant.

### Level 3 assets and liabilities

The following table shows a reconciliation of the beginning and ending fair value measurements of assets and liabilities valued on a recurring basis and classified as Level 3 within the fair value measurement hierarchy for the fiscal year ended October 31, 2020 and 2019:

| <i>(in thousands)</i>                        | Bank Loans and Other Investments<br>of Consolidated CLO Entities |         |      |         |
|--|--|---------|------|---------|
|  | 2020   |         | 2019 |         |
| Beginning balance                            | \$   | 1,501   | \$   | 1,547   |
| Consolidation of CLO entities <sup>(1)</sup> |  | -       |      | 1,323   |
| Paydowns                                     |  | (19)    |      | (25)    |
| Purchases                                    |  | 444     |      | -       |
| Sales  |  | (634)   |      | -       |
| Net gains (losses) included in net income    |  | (541)   |      | (48)    |
| Transfers out of Level 3 <sup>(2)</sup>      |  | (2,349) |      | (1,296) |
| Transfers into Level 3 <sup>(3)</sup>        |  | 2,308   |      | -       |
| Ending balance                               | \$   | 710     | \$   | 1,501   |

<sup>(1)</sup> Represents Level 3 bank loans and other investments held by consolidated CLO entities upon the initial consolidation of these entities during the period.

<sup>(2)</sup> Transfers out of Level 3 were due to an increase in the observability of the inputs used in determining the fair value of certain instruments.

<sup>(3)</sup> Transfers into Level 3 were due to a reduction in the observability of the inputs used in determining the fair value of certain instruments.

### Financial Assets and Liabilities Not Measured at Fair Value

Certain financial instruments are not carried at fair value, but their fair value is required to be disclosed. The following is a summary of the carrying amounts and estimated fair values of these financial instruments at October 31, 2020 and 2019:

| <i>(in thousands)</i> | 2020           |            |                  | 2019           |            |                  |
|-----------------------|----------------|------------|------------------|----------------|------------|------------------|
|                       | Carrying Value | Fair Value | Fair Value Level | Carrying Value | Fair Value | Fair Value Level |
| Loan to affiliate     | \$ 5,000       | \$ 5,000   | 3                | \$ 5,000       | \$ 5,000   | 3                |
| Debt                  | \$ 621,348     | \$ 683,211 | 2                | \$ 620,513     | \$ 658,615 | 2                |

As discussed in Note 22, on December 23, 2015, Eaton Vance Management Canada Ltd. (EVMC), a wholly-owned subsidiary of the Company, loaned \$5.0 million to Hexavest under a term loan agreement to seed a new investment strategy. The carrying value of the loan approximates fair value. The fair value is determined annually using a cash flow model that projects future cash flows based upon contractual obligations, to which the Company then applies an appropriate discount rate.

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

## 8. Equipment and Leasehold Improvements

The following is a summary of equipment and leasehold improvements at October 31, 2020 and 2019:

| <i>(in thousands)</i>                           | 2020       | 2019      |
|---|------------|-----------|
| Equipment                                       | \$ 100,092 | \$ 97,366 |
| Leasehold improvements                          | 73,788     | 68,386    |
| Subtotal  | 173,880    | 165,752   |
| Less: Accumulated depreciation and amortization | (102,050)  | (92,954)  |
| Equipment and leasehold improvements, net       | \$ 71,830  | \$ 72,798 |

Depreciation and amortization expense was \$18.8 million, \$17.6 million and \$15.0 million for the years ended October 31, 2020, 2019 and 2018, respectively.

## 9. Leases

The components of total operating lease expense included in other expenses in the Company's Consolidated Statement of Income are as follows:

| <i>(in thousands)</i>         | Year Ended<br>October 31,<br>2020 |
|-------------------------------|-----------------------------------|
| Operating lease expense       | \$ 24,944                         |
| Variable lease expense        | 5,640                             |
| Total operating lease expense | \$ 30,584                         |

Operating lease liabilities primarily relate to office space leases in the U.S. that expire over various terms through 2039. A maturity analysis of undiscounted operating lease payments not yet paid and additional information related to the total amount of operating lease liabilities reported on the Company's Consolidated Balance Sheet at October 31, 2020 are as follows:

| Year Ending October 31,<br><i>(in thousands)</i>                   | Amount     |
|--|------------|
| 2021   | \$ 27,018  |
| 2022   | 26,562     |
| 2023   | 25,736     |
| 2024   | 25,675     |
| 2025   | 26,046     |
| 2026 - thereafter  | 225,396    |
| Total undiscounted operating lease payments                        | 356,433    |
| Less: Imputed interest to be recognized as operating lease expense | (55,014)   |
| Total operating lease liabilities                                  | \$ 301,419 |
| Weighted average remaining lease term                              | 13.7 years |
| Weighted average discount rate                                     | 2.4%       |

During fiscal 2020, the Company amended certain office space leases in the U.S. to extend their term and/or expand the lease premises. Separately, in the fourth quarter of fiscal 2020, the Company assumed the right to lease certain office space as part of the acquisition of WaterOak Advisors, LLC as described further in Note 10. Collectively, these transactions resulted in a net increase in operating lease right-of-use assets and operating lease liabilities of \$0.3 million.

The Company utilizes estimated incremental borrowing rates as the discount rate to measure its lease liabilities. Incremental borrowing rates reflect the terms and conditions of each lease arrangement and are estimated at lease inception utilizing readily observable market-based unsecured corporate borrowing rates (commensurate with the Company's credit rating on its outstanding senior unsecured public debt) that correspond to the weighted average term of the lease, primarily adjusted for the effects of collateralization.

Rent expense totaled \$24.5 million and \$23.2 million, respectively, for the years ended October 31, 2019 and 2018. As of October 31, 2019, the Company's total future minimum lease commitments by year were as follows:

| <b>Year Ending October 31,</b><br><i>(in thousands)</i> | <b>Amount</b>     |
|---|-------------------|
| 2020  | \$ 25,239         |
| 2021  | 26,242            |
| 2022  | 26,296            |
| 2023  | 25,642            |
| 2024  | 25,614            |
| 2025 - thereafter                                       | 252,694           |
| <b>Total</b>  | <b>\$ 381,727</b> |

## 10. Acquisitions, Goodwill and Intangible Assets

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

In fiscal 2020, 2019 and 2018, the Company exercised a series of call options through which it purchased \$6.8 million, \$7.8 million and \$8.2 million, respectively, of indirect profit interests held by non-controlling interest holders of Atlanta Capital pursuant to the provisions of the Atlanta Capital Management Company, LLC Long-Term Equity Incentive Plan (Atlanta Capital Plan, as described further in Note 13). These transactions settled in each of the first quarters of fiscal 2020, 2019 and 2018, respectively.

Total indirect profit interests in Atlanta Capital held by non-controlling interest holders issued pursuant to the Atlanta Capital Plan were 7.1 percent and 8.2 percent at October 31, 2020 and 2019, respectively. Fair value of these interests reflects the unadjusted per unit equity value of Atlanta Capital determined utilizing an appraisal prepared by an independent valuation firm and approved by management as described further in Note 13. Vested profit interests are redeemable upon the exercise of limited in-service put rights held by the employee or call rights held by the Company. The call rights held by the Company entitle the Company to repurchase the profit units at the end of a ten-year call period and each year thereafter, and upon termination of employment. Execution of the puts and calls takes place upon availability of an appraisal to ensure the transactions take place at fair value. The estimated fair value of these interests was

\$27.4 million and \$25.2 million at October 31, 2020 and 2019, respectively, and is included as a component of temporary equity on the Consolidated Balance Sheets.

*Subsequent event*

As described further in Note 13, pursuant to the terms of the Merger Agreement with Morgan Stanley, in December 2020 the Company offered and obtained the consent of the holders of the remaining outstanding indirect profit interests under the Atlanta Capital Plan to vest and purchase such profit interests for cash at fair value. The Company expects to purchase the indirect profit interests by December 31, 2020.

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

During fiscal 2019, the Company announced a strategic initiative to rebrand as Parametric the rules-based, systematic investment-grade fixed income strategies offered by EVM, align internal reporting consistent with the revised branding, combine the technology and operating platforms supporting the individual separately managed account businesses of Parametric and EVM, and integrate under Eaton Vance Distributors, Inc. (EVD) the distribution teams serving our clients and business partners in the registered investment advisor and multi-family office market. To support this initiative, in the fourth quarter of fiscal 2019 the Company accelerated the repurchase of all capital and profit interests held by current and former employees of Parametric at fair value in a series of private transactions. Fair value reflects the unadjusted per unit equity value of Parametric utilizing an appraisal prepared by an independent valuation firm and approved by management as described in Note 13 under the heading Atlanta Capital and Parametric Phantom Incentive Plans. Details of these accelerated repurchases, which totaled \$73.5 million, are further described below.

*Parametric Plan*

In the fourth quarter of fiscal 2019, the Company accelerated the repurchase of the remaining outstanding capital and profit interests granted under the Parametric Portfolio Associates LLC Long-Term Equity Plan pursuant to a tender offer for \$61.2 million.

*Parametric Risk Advisors*

In the fourth quarter of fiscal 2019, the Company accelerated the repurchase of all capital and profit interests related to the Parametric Risk Advisors Unit Acquisition Agreement for \$12.3 million.

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

In fiscal 2017, the Company acquired substantially all of the assets of Calvert Investment Management, Inc. The fair value of the gross assets acquired was concentrated in a single identifiable intangible asset related to contracts acquired to manage and distribute sponsored mutual funds (Calvert Funds). The Calvert Funds are a diversified family of mutual funds, encompassing actively and passively managed equity, fixed and floating-rate income, and multi-asset strategies managed in accordance with the Calvert Principles for Responsible Investment or other responsible investment criteria.

***WaterOak Advisors, LLC (WaterOak)***

In the fourth quarter of fiscal 2020, the Company, through its wholly-owned subsidiary Eaton Vance Investment Counsel, acquired substantially all of the assets of WaterOak, a wealth management firm headquartered in Winter Park, Florida. WaterOak provides asset management services to high-net-worth



individuals and institutional clients through separately managed accounts. The total cost to acquire WaterOak was \$48.1 million. At closing, the Company paid \$28.8 million in cash and incurred a contingent liability of \$19.3 million (reported within other liabilities on the Company's Consolidated Balance Sheet) representing future cash payments to be made based on a prescribed multiple of WaterOak's attributable EBITDA for each twelve-month period ending October 31, 2021, 2022, 2023, and 2024. These payments are not contingent upon any member of the WaterOak team remaining an employee of the Company. The estimated fair value of the contingent liability was measured using a Monte Carlo simulation model prepared with the assistance of an independent valuation firm and approved by management (level 3 fair value measurement).

The WaterOak transaction was accounted for as an asset acquisition because substantially all of the fair value of the gross assets acquired was concentrated in a single identifiable intangible asset related to advisory agreements (client relationships). The value of the client relationships was estimated under the income approach using a multi-period excess earnings method. The key inputs in the valuation included forecasted assets under management, revenue and expenses, and a discount rate of 18 percent. The \$48.1 million cost of the acquisition was allocated to assets acquired on the basis of their relative fair values. Specifically, the Company recognized \$46.6 million, \$1.0 million and \$0.5 million of intangible assets representing acquired client relationships, assembled workforce and trademark intangible assets, respectively. Acquired client relationships and assembled workforce intangible assets will be amortized over a 15-year period and trademark intangible assets will be amortized over a 10-year period. The valuation of the contingent liability and the intangible assets were prepared with the assistance of an independent valuation firm and approved by management. No amortization expense was recognized related to these acquired intangible assets during fiscal 2020. The estimated amortization expense for these assets in each of the next five years is \$16.1 million annually. Separately, as part of the acquisition, the Company assumed the right to lease certain office space in Winter Park, Florida. See Note 9 for additional information.

Subsequent to closing, the combined entities operate as Eaton Vance WaterOak Advisors.

### ***Goodwill***

The carrying amount of goodwill was \$259.7 million at both October 31, 2020 and 2019. There were no changes in the carrying amount of goodwill during these periods. All acquired goodwill is deductible for tax purposes.

The Company qualitatively tested goodwill for impairment in the fourth quarter of fiscal 2020 and determined that there were no events to changes in circumstances that would more likely than not reduce the fair value of its reporting units below their carrying amount.

No impairment in the carrying amount of goodwill was recognized during the years ended October 31, 2020, 2019 or 2018.

## Intangible assets

The following is a summary of intangible assets:

### October 31, 2020

| <i>(dollars in thousands)</i>             | Weighted-Average Remaining Amortization Period (in years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|-----------------------|--------------------------|---------------------|
| <b>Amortizing intangible assets:</b>      |   |                       |                          |                     |
| Client relationships acquired             | 13.7  | \$ 180,772            | \$ (119,365)             | \$ 61,407           |
| Intellectual property acquired            | 5.6   | 1,025                 | (653)                    | 372                 |
| Trademark acquired                        | 10.1  | 4,782                 | (1,819)                  | 2,963               |
| Assembled workforce acquired              | 15.0  | 1,025                 | -                        | 1,025               |
| Research system acquired                  |   | 639                   | (639)                    | -                   |
| <b>Non-amortizing intangible assets:</b>  |   |                       |                          |                     |
| Mutual fund management contracts acquired |   | 54,408                | -                        | 54,408              |
| <b>Total</b>                              |   | <b>\$ 242,651</b>     | <b>\$ (122,476)</b>      | <b>\$ 120,175</b>   |

### October 31, 2019

| <i>(dollars in thousands)</i>             | Weighted-Average Remaining Amortization Period (in years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|-----------------------|--------------------------|---------------------|
| <b>Amortizing intangible assets:</b>      |   |                       |                          |                     |
| Client relationships acquired             | 9.5   | \$ 134,247            | \$ (115,921)             | \$ 18,326           |
| Intellectual property acquired            | 6.6   | 1,025                 | (586)                    | 439                 |
| Trademark acquired                        | 11.1  | 4,257                 | (1,558)                  | 2,699               |
| Research system acquired                  | 0.2   | 639                   | (604)                    | 35                  |
| <b>Non-amortizing intangible assets:</b>  |   |                       |                          |                     |
| Mutual fund management contracts acquired |   | 54,408                | -                        | 54,408              |
| <b>Total</b>                              |   | <b>\$ 194,576</b>     | <b>\$ (118,669)</b>      | <b>\$ 75,907</b>    |

No impairment in the value of amortizing or non-amortizing intangible assets was recognized during the years ended October 31, 2020, 2019 or 2018.

Amortization expense was \$3.8 million, \$5.0 million and \$8.9 million for the years ended October 31, 2020, 2019 and 2018, respectively. Estimated amortization expense to be recognized by the Company over the next five years, on a straight-line basis, is as follows:

| <b>Year Ending October 31,<br/>(in thousands)</b> | <b>Estimated<br/>Amortization<br/>Expense</b> |
|---|---|
| 2021  | \$ 5,505                                      |
| 2022  | 5,377   |
| 2023  | 4,977   |
| 2024  | 4,902   |
| 2025  | 4,862   |

## **11. Debt**

### ***2027 Senior Notes***

During fiscal 2017, the Company issued \$300.0 million in aggregate principal amount of 3.5 percent ten-year senior notes due April 6, 2027. Interest is payable semi-annually in arrears on April 6th and October 6th of each year. At October 31, 2020 and 2019, the carrying value of the 2027 Senior Notes was \$297.5 million and \$297.2 million, respectively. The 2027 Senior Notes are unsecured and unsubordinated obligations of the Company. There are no covenants associated with the 2027 Senior Notes.

### ***2023 Senior Notes***

During fiscal 2013, the Company issued \$325.0 million in aggregate principal amount of 3.625 percent ten-year senior notes due June 15, 2023. Interest is payable semi-annually in arrears on June 15th and December 15th of each year. At October 31, 2020 and 2019, the carrying value of the 2023 Senior Notes was \$323.8 million and \$323.3 million, respectively. The 2023 Senior Notes are unsecured and unsubordinated obligations of the Company. There are no covenants associated with the 2023 Senior Notes.

### ***Corporate credit facility***

The Company entered into a \$300.0 million unsecured revolving credit facility on December 11, 2018. The credit facility has a five-year term, expiring on December 11, 2023. In accordance with and subject to the terms and conditions of this facility, the Company may borrow up to the initial amount of \$300.0 million committed by the lenders at LIBOR or LIBOR-successor benchmark-based rates of interest, as applicable, which vary depending on the credit ratings of the Company. Accrued interest on any borrowings is payable quarterly in arrears and on the date of repayment. Subject to the terms and conditions of the credit facility, the amount available for borrowing may be increased up to \$400.0 million through additional commitments by existing lenders or the addition of one or more new lenders to the syndicate. The credit facility is unsecured, contains financial covenants with respect to leverage and interest coverage, and requires the Company to pay an annual commitment fee on any unused portion.

The Company borrowed \$300.0 million from this credit facility during the second quarter of fiscal 2020 at the onset of the COVID-19 pandemic to demonstrate the Company's ability to access incremental liquidity

if needed. Such borrowings were fully repaid prior to the end of the Company's second fiscal quarter. The Company recognized interest expense of \$0.5 million attributable to borrowings under this credit facility during fiscal 2020. As of October 31, 2020 and 2019, the Company had no borrowings outstanding under its credit facility.

## 12. Revenue

The following table disaggregates total revenue by source for the years ended October 31, 2020, 2019 and 2018:

| <i>(in thousands)</i>                   | 2020         | 2019         | 2018         |
|---|--------------|--------------|--------------|
| Management fees:                        |              |              |              |
| Sponsored funds                         | \$ 1,012,608 | \$ 999,256   | \$ 1,015,263 |
| Separate accounts                       | 501,780      | 464,687      | 443,923      |
| Total management fees                   | 1,514,388    | 1,463,943    | 1,459,186    |
| Distribution and underwriter fees:      |              |              |              |
| Distribution fees                       | 57,567       | 63,888       | 77,402       |
| Underwriter commissions                 | 19,489       | 21,724       | 19,969       |
| Total distribution and underwriter fees | 77,056       | 85,612       | 97,371       |
| Service fees                            | 131,724      | 123,073      | 122,231      |
| Other revenue                           | 7,197        | 10,624       | 13,634       |
| Total revenue                           | \$ 1,730,365 | \$ 1,683,252 | \$ 1,692,422 |

The following table disaggregates total management fee revenue by investment mandate reporting category for the years ended October 31, 2020, 2019 and 2018:

| <i>(in thousands)</i>                       | 2020         | 2019         | 2018         |
|---|--------------|--------------|--------------|
| Equity                                      | \$ 742,491   | \$ 699,726   | \$ 700,194   |
| Fixed income <sup>(1)</sup>                 | 265,263      | 244,564      | 229,115      |
| Floating-rate income                        | 151,928      | 197,695      | 211,075      |
| Alternative                                 | 51,045       | 59,290       | 85,096       |
| Parametric custom portfolios <sup>(1)</sup> | 257,125      | 220,032      | 189,678      |
| Parametric overlay services <sup>(2)</sup>  | 46,536       | 42,636       | 44,028       |
| Total management fees                       | \$ 1,514,388 | \$ 1,463,943 | \$ 1,459,186 |

<sup>(1)</sup> In the first quarter of fiscal 2020, the Company revised its investment mandate reporting categories to classify benchmark-based fixed income separate accounts (formerly classified as fixed income) as Parametric custom portfolios (formerly "portfolio implementation"), which now includes equity, fixed income and multi-asset separate accounts managed by Parametric for which customization is a primary feature. Management fees totaling \$40.8 million and \$30.3 million have been reclassified from fixed income to Parametric custom portfolios for the fiscal years ended October 31, 2019 and 2018, respectively. These reclassifications do not affect the amount of total management fees in the prior period.

<sup>(2)</sup> In the first quarter of fiscal 2020, this investment mandate was renamed Parametric overlay services (formerly "exposure management"). The name change does not affect the amount of management fees for the category in the prior period.

Management fees and other receivables reported in the Company's Consolidated Balance Sheet include \$245.8 million and \$231.3 million of receivables from contracts with customers at October 31, 2020 and 2019, respectively. Deferred revenue reported in other liabilities on the Company's Consolidated Balance Sheet was \$6.4 million and \$6.3 million at October 31, 2020 and 2019, respectively. The entire deferred

revenue balance at the end of any given reporting period is expected to be recognized as management fee revenue in the immediate subsequent quarter.

### 13. Stock-Based Compensation Plans

Compensation expense recognized by the Company related to its stock-based compensation plans for the years ended October 31, 2020, 2019 and 2018 was as follows:

| <i>(in thousands)</i>                         | <b>2020</b>       | <b>2019</b>      | <b>2018</b>      |
|---|-------------------|------------------|------------------|
| Omnibus Incentive Plans:                      |                   |                  |                  |
| Restricted stock                              | \$ 209,217        | \$ 57,821        | \$ 52,312        |
| Stock options                                 | 23,234            | 21,949           | 23,531           |
| Deferred stock units                          | 1,745             | 915              | 1,008            |
| Employee Stock Purchase Plans                 | 525               | 355              | 793              |
| Employee Stock Purchase Incentive Plan        | 1,096             | 512              | 877              |
| Atlanta Capital Plan                          | 1,604             | 2,280            | 2,969            |
| Atlanta Capital Phantom Incentive Plan        | 1,810             | 1,087            | 567              |
| Parametric Plan                               | -                 | 3,461            | 3,177            |
| Parametric Phantom Incentive Plan             | 55                | 3,533            | 2,821            |
| <b>Total stock-based compensation expense</b> | <b>\$ 239,286</b> | <b>\$ 91,913</b> | <b>\$ 88,055</b> |

The total income tax benefit recognized for stock-based compensation arrangements was \$58.2 million, \$21.3 million and \$21.7 million for the years ended October 31, 2020, 2019 and 2018, respectively.

#### ***Omnibus Incentive Plans***

The 2013 Omnibus Incentive Plan, as amended and restated (2013 Plan), which is administered by the Compensation Committee of the Board, allows for awards of options to acquire shares of the Company's Non-Voting Common Stock, restricted shares of the Company's Non-Voting Common Stock (restricted stock awards), restricted stock units and deferred stock units relating to the Company's Non-Voting Common Stock to eligible employees and non-employee Directors. The 2013 Plan also allows for the issuance of shares to settle phantom incentive units awarded to employees of Atlanta Capital and Parametric. The 2013 Plan contains change in control provisions that may accelerate the vesting of certain awards. A total of 34.5 million shares of Non-Voting Common Stock have been reserved for issuance under the 2013 Plan. Through October 31, 2020, 11.1 million shares of restricted stock, options to purchase 17.9 million shares and 0.1 million shares to settle phantom incentive units have been issued pursuant to the 2013 Plan.

#### ***Restricted stock units***

Pursuant to the terms of the Agreement and Plan of Merger with Morgan Stanley (Merger Agreement), any stock-based awards granted by the Company subsequent to obtaining the consent of the Voting Trust to approve and adopt the Merger Agreement on October 7, 2020 through the closing date of the merger will be granted in the form of restricted stock units. Each restricted stock unit granted under the 2013 Plan represents the forfeitable right to receive one share of the Company's Non-Voting Common Stock upon vesting. Restricted stock units are accounted for as equity awards and vest over three years pursuant to a graded vesting schedule. Holders of restricted stock units have forfeitable rights to dividend equivalents equal to the dividends declared on the Company's Non-Voting Common Stock during the vesting period

through the closing date of the merger. Dividend equivalents are reinvested in the form of additional restricted stock units that are credited to the corresponding restricted stock unit award when the Company pays dividends (including the special cash dividend described further in Note 15) on its Non-Voting Common Stock, and vest at the same time as the corresponding restricted stock unit award. The fair value of each restricted stock unit is indexed to the unadjusted observable closing market price of the Company's Non-Voting Common Stock. As of October 31, 2020, no restricted stock units have been awarded under the 2013 Plan.

*Subsequent event*

In November 2020, the Company granted a total of 1.7 million restricted stock units under the 2013 Plan at a grant date fair value of \$60.43 per unit. Separately, as discussed further in Note 15, the Company paid a special cash dividend of \$4.25 per share on December 18, 2020. On that date, 0.1 million of additional restricted stock units were credited to the corresponding restricted stock unit awards at a fair value of \$65.29 per unit.

*Restricted stock awards*

Restricted stock awards granted under the 2013 Plan are accounted for as equity awards and vest over five years pursuant to a graduated vesting schedule. Holders of restricted stock awards have forfeitable rights to dividends equal to the dividends declared on the Company's Non-Voting Common Stock during the vesting period. These dividends are not paid in cash to holders of restricted stock until the awards vest.

A summary of restricted stock activity for the year ended October 31, 2020 is as follows:

| <i>(share amounts in thousands)</i> | <b>Shares</b> | <b>Weighted-Average Grant Date Fair Value</b> |
|-------------------------------------|---------------|---|
| Unvested, beginning of period       | 5,377         | \$ 42.72                                      |
| Granted                             | 1,694         | 46.36   |
| Vested                              | (6,957)       | 43.57   |
| Forfeited                           | (114)         | 44.59   |
| Unvested, end of period             | -             | \$ -  |

The total fair value of restricted stock vested during the years ended October 31, 2020, 2019 and 2018 was \$303.1 million, \$52.7 million and \$47.2 million, respectively.

Pursuant to the terms of the change in control provisions for restricted stock awards under the 2013 Plan, upon obtaining the consent of the Voting Trust to approve and adopt the Merger Agreement on October 7, 2020, the outstanding and unvested restricted stock awards held by employees were immediately vested in full. As a result, the Company recognized the remaining grant-date fair-value attributable to these awards of \$140.7 million as compensation expense on that date.

*Subsequent event*

The terms of the Merger Agreement with Morgan Stanley contemplate the payment of a special cash dividend of \$4.25 per share on the Company's Common Stock. The Company declared the special cash dividend on November 23, 2020 to shareholders of record on December 4, 2020. The dividend was paid on December 18, 2020. In addition to receiving the special dividend payment on shares of the Company's

Common Stock held on the record date, current and former employees also received a cash payment equivalent to the special dividend amount on restricted shares that were sold to the Company upon vesting of their restricted stock awards to meet payroll tax withholding obligations. Payments in lieu of the special dividend on restricted shares sold to meet payroll tax withholding obligations totaling \$7.5 million will be recorded as compensation expense in the first quarter of fiscal 2021.

*Stock options*

Options to purchase Non-Voting Common Stock granted under the 2013 Plan and predecessor plans are accounted for as equity awards. Stock options expire ten years from the date of grant and vest over five years pursuant to a graduated vesting schedule and may not be granted with an exercise price that is less than the fair market value of the stock as of the close of business on the date of grant. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, expected volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management’s judgment. The dividend yield assumption represents the Company’s expected dividend yield based on its historical dividend payouts and the stock price at the date of grant. The expected volatility assumption is based upon the historical price fluctuations of the Company’s Non-Voting Common Stock. The Company uses historical data to estimate the expected life of options granted. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant.

The weighted-average fair values per share of stock options granted during the years ended October 31, 2020, 2019 and 2018 using the Black-Scholes option valuation model were as follows:

|  | <b>2020</b>  | <b>2019</b>  | <b>2018</b>  |
|--|--------------|--------------|--------------|
| Weighted-average grant date fair value<br>of options granted | \$ 7.41      | \$ 9.07      | \$ 10.55     |
| <b>Assumptions:</b>  |              |              |              |
| Dividend yield   | 3.1% to 4.6% | 3.1% to 3.5% | 2.4%         |
| Expected volatility  | 23% to 24%   | 24% to 31%   | 24%          |
| Risk-free interest rate                                      | 0.5% to 1.6% | 2.6% to 3.1% | 2.3% to 2.8% |
| Expected life of options                                     | 7.2 years    | 7.2 years    | 7.2 years    |

A summary of stock option activity for the year ended October 31, 2020 is as follows:

| <i>(share and intrinsic value amounts in thousands)</i> | Shares  | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|---|---------|---------------------------------|--|---------------------------|
| Options outstanding, beginning of period                | 17,599  | \$ 37.22                        |  |                           |
| Granted   | 2,888   | 46.21                           |  |                           |
| Exercised   | (3,390) | 31.78                           |  |                           |
| Forfeited/expired                                       | (25)    | 40.78                           |  |                           |
| Options outstanding, end of period                      | 17,072  | \$ 39.81                        | 5.8  | \$ 341,062                |
| Options exercisable, end of period                      | 8,190   | \$ 35.68                        | 4.0  | \$ 197,436                |

The Company received \$105.6 million, \$43.5 million and \$68.4 million related to the exercise of options for the fiscal years ended October 31, 2020, 2019 and 2018, respectively. Shares issued upon exercise of options represent newly issued shares. The total intrinsic value of options exercised during the years ended October 31, 2020, 2019 and 2018 was \$63.8 million, \$23.4 million and \$65.1 million, respectively. The total fair value of options that vested during the year ended October 31, 2020 was \$22.4 million.

As of October 31, 2020, there was \$37.5 million of compensation cost related to unvested stock options granted under the 2013 Plan and predecessor plans not yet recognized. That cost is expected to be recognized over a weighted-average period of 2.3 years.

Pursuant to the terms of the Merger Agreement with Morgan Stanley, upon the completion of the proposed acquisition of Eaton Vance by Morgan Stanley, each then outstanding and unexercised stock option, whether vested or unvested, will be deemed to have been vested in full, and cancelled and converted into the right to receive a cash payment at closing.

#### *Subsequent event*

The terms of the Merger Agreement with Morgan Stanley contemplate the payment of an amount of cash equivalent to the special cash dividend noted above to each holder of an outstanding and unexercised stock option as of the record date of December 4, 2020. The payment was calculated as the product of \$4.25 times the number of shares of Non-Voting Common Stock underlying any unexercised option awards on the record date. Payments to current and former employees in lieu of the special dividend on outstanding stock options that have vested will be recorded as a charge to retained earnings totaling \$42.3 million. Payments to current and former employees in lieu of the special dividend on outstanding stock options that are unvested will be recorded as compensation expense totaling \$25.1 million in the first quarter of fiscal 2021.

#### *Deferred stock units*

Deferred stock units issued to non-employee Directors under the 2013 Plan are accounted for as liability awards. Once the awards are granted, the non-employee Directors have the right to receive cash payments related to such awards upon separation from the Company (other than for cause). Because there is no substantive service condition for the vesting of these awards, deferred stock units are considered fully vested for accounting purposes on the grant date and the entire fair value of these awards



is recognized as compensation cost on that date. During fiscal 2020 and 2019, deferred stock units were issued to non-employee Directors under the 2013 Plan. The total liability attributable to deferred stock units included as a component of accrued compensation on the Company's Consolidated Balance Sheet was \$3.2 million and \$1.7 million as of October 31, 2020 and 2019, respectively. The Company made cash payments of \$0.2 million, \$0.5 million and \$0.4 million in the fiscal years ended October 31, 2020, 2019 and 2018, respectively, to settle deferred stock unit award liabilities. Pursuant to the terms of the Merger Agreement with Morgan Stanley, all outstanding deferred stock units will be deemed to have vested and converted into the right to receive cash upon the close of the transaction.

### ***Employee Stock Purchase Plans***

The 2013 Employee Stock Purchase Plan (Qualified ESPP) and the 2013 Nonqualified Employee Stock Purchase Plan (Nonqualified ESPP) (together, Employee Stock Purchase Plans), which are administered by the Compensation Committee of the Board, permit eligible employees to direct up to a maximum of \$12,500 per six-month offering period toward the purchase of Non-Voting Common Stock at the lower of 90 percent of the market price of the Non-Voting Common Stock at the beginning or at the end of each offering period. The Qualified ESPP qualifies under Section 423 of the U.S. Internal Revenue Code of 1986, as amended (Internal Revenue Code). A total of 0.5 million and 0.1 million shares of the Company's Non-Voting Common Stock have been reserved for issuance under the Qualified ESPP and Nonqualified ESPP, respectively. Through October 31, 2020, 0.6 million shares have been issued pursuant to the Employee Stock Purchase Plans.

The Company received \$3.0 million, \$3.2 million and \$3.2 million related to shares issued under the Employee Stock Purchase Plans for the years ended October 31, 2020, 2019 and 2018, respectively.

### ***Subsequent event***

The Company received \$1.6 million related to shares issued under the Employee Stock Purchase Plans for the six-month offering period that concluded in November 2020. Pursuant to the terms of the Merger Agreement with Morgan Stanley, this will be the final offering period of the Employee Stock Purchase Plans.

### ***Employee Stock Purchase Incentive Plan***

The 2013 Incentive Compensation Nonqualified Employee Stock Purchase Plan (Employee Stock Purchase Incentive Plan), which is administered by the Compensation Committee of the Board, permits employees to direct up to half of their incentive bonuses and commissions toward the purchase of the Company's Non-Voting Common Stock at the lower of 90 percent of the market price of the Non-Voting Common Stock at the beginning or at the end of each quarterly offering period. A total of 0.9 million shares of the Company's Non-Voting Common Stock have been reserved for issuance under the Employee Stock Purchase Incentive Plan. Through October 31, 2020, 0.8 million shares have been issued pursuant to the Employee Stock Purchase Incentive Plan.

The Company received \$4.0 million, \$4.6 million and \$4.9 million related to shares issued under the Employee Stock Purchase Incentive Plan for the years ended October 31, 2020, 2019 and 2018, respectively.

*Subsequent event*

The Company received \$2.0 million related to shares issued under the Employee Stock Purchase Incentive Plan for the quarterly offering period that concluded in November 2020. Pursuant to the terms of the Merger Agreement with Morgan Stanley, this will be the final offering period of the Employee Stock Purchase Incentive Plan.

***Atlanta Capital and Parametric Long-Term Equity Incentive Plans***

The Atlanta Capital Plan and the Parametric Plan allow for awards of profit units of Atlanta Capital and Parametric, respectively, to key employees that are accounted for as equity awards. The Company did not grant any profit interests under either the Atlanta Capital Plan or the Parametric Plan in fiscal 2020, 2019, or 2018. Profit units granted vest over five years and entitle the holders to quarterly distributions of available cash flow.

As of October 31, 2020, there was \$0.8 million of compensation cost related to unvested profit units previously granted under the Atlanta Capital Plan not yet recognized. That cost is expected to be recognized over a weighted-average period of 1.0 year. The compensation cost attributable to these awards was measured at the grant date using the unadjusted per unit equity value of Atlanta Capital described further in the phantom incentive plan section of this Note below. A total of 323,016 profit units have been issued pursuant to the Atlanta Capital Plan through October 31, 2020.

During the fourth quarter of fiscal 2019, the Company purchased all of the outstanding profit units held by current and former employees under the Parametric Plan (see Note 10). The Company accelerated the vesting of these units and recognized all of the remaining compensation cost attributable to these units, which totaled \$1.6 million, in the fourth quarter of fiscal 2019. The Company terminated the Parametric Plan in the first quarter of fiscal 2020.

*Subsequent event*

Pursuant to the terms of the Merger Agreement with Morgan Stanley, in December 2020 the Company offered and obtained the consent of the holders of the remaining outstanding profit units under the Atlanta Capital Plan to vest and purchase such profit units for cash at fair value. Upon vesting, the remaining unrecognized grant date fair value attributable to these awards was recognized as compensation expense. The Company expects to purchase the profit units by December 31, 2020.

***Atlanta Capital and Parametric Phantom Incentive Plans***

The 2017 Atlanta Capital Phantom Incentive Plan (Atlanta Capital Phantom Incentive Plan), and the 2016 Parametric Phantom Incentive Plan and the 2018 Parametric Phantom Incentive Plan (collectively, Parametric Phantom Incentive Plans) are long-term equity incentive plans that provide for the award of phantom incentive units to eligible employees of Atlanta Capital and Parametric, respectively. Phantom incentive units are accounted for as equity awards and vest over five years.

The fair value of each phantom incentive unit is indexed to the equity value of Atlanta Capital or Parametric, as applicable, determined on a per unit basis at least annually utilizing an appraisal of each entity that is developed using two weighted valuation techniques: specifically, an income approach and a market approach. The appraisals are prepared by an independent valuation firm and approved by management. The income approach employs a discounted cash flow model to ascribe an enterprise value to each entity that takes into account projections of future cash flows developed utilizing the best

information available and market-based assumptions that are consistent with other comparable publicly traded investment management companies of a similar size, including current period actual results, historical trends, forecasted results provided by management and extended by the independent valuation firm, and an appropriate risk-adjusted discount rate that takes into consideration an estimated weighted average cost of capital. The market approach ascribes an enterprise value to each entity by applying market multiples of other comparable publicly traded investment management companies of a similar size. At the grant date, the per unit equity value is adjusted to take into consideration that holders of these units are not entitled to receive distributions of future earnings from Atlanta Capital or Parametric, as applicable, nor are they entitled to receive dividend or dividend equivalents from these entities. At the vesting date, the fair value of each vested phantom incentive unit is measured; however, no adjustment to the per unit equity value is made. These awards are settled in shares of the Company's Non-Voting Common Stock under the 2013 Plan determined based on the unadjusted per unit equity value and the closing market price of the stock observed on the vesting date.

Phantom incentive units are not reserved for issuance; rather, the Company determines the number of authorized phantom incentive unit awards annually on the first business day of the fiscal year. The awards are subject to the Non-Voting Common Stock reserves defined under the 2013 Plan, as described above.

#### *Atlanta Capital Phantom Incentive Plan*

A summary of phantom incentive unit activity for the year ended October 31, 2020 is presented below:

|                               | <b>Phantom<br/>Incentive<br/>Units</b> | <b>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|-------------------------------|--|--|
| Unvested, beginning of period | 37,470                                 | \$ 137.52  |
| Granted                       | 23,938                                 | 150.42   |
| Vested                        | (4,941)                                | 138.68   |
| Unvested, end of period       | 56,467                                 | \$ 142.89  |

As of October 31, 2020, there was \$5.6 million of compensation cost related to unvested awards granted under the Atlantic Capital Phantom Incentive Plan not yet recognized. That cost is expected to be recognized over a weighted-average period of 3.2 years.

#### *Subsequent event*

Pursuant to the terms of the Merger Agreement with Morgan Stanley, all outstanding unvested awards granted under the Atlanta Capital Phantom Incentive Plan vested and settled in shares of the Company's Non-Voting Common Stock on December 3, 2020. Upon vesting, the remaining unrecognized grant date fair value attributable to these awards was recognized as compensation expense.

#### *Parametric Phantom Incentive Plans*

The terms of the 2018 Parametric Phantom Incentive Plan (2018 Parametric Plan) are substantially equivalent to the 2016 Parametric Phantom Incentive Plan (2016 Parametric Plan), except that under the 2018 Parametric Plan, the awards are unitized such that one unit of Parametric is equivalent to 100 phantom incentive units (under the 2016 Parametric Plan, one unit of Parametric is equivalent to one phantom incentive unit).

A summary of phantom incentive unit activity for the year ended October 31, 2020 under the 2016 Parametric Plan is presented below:

|                               | <b>Phantom<br/>Incentive<br/>Units</b> | <b>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value<br/>Per Unit</b> |
|-------------------------------|--|---|
| Unvested, beginning of period | 75                                     | \$ 2,091.93   |
| Vested                        | (15)                                   | 2,062.75  |
| Forfeited                     | (5)                                    | 2,208.66  |
| Unvested, end of period       | 55                                     | \$ 2,089.28   |

A summary of phantom incentive unit activity for the year ended October 31, 2020 under the 2018 Parametric Plan is presented below:

|                               | <b>Phantom<br/>Incentive<br/>Units</b> | <b>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value<br/>Per Unit</b> |
|-------------------------------|--|---|
| Unvested, beginning of period | 5,897                                  | \$ 22.82  |
| Vested                        | (591)                                  | 22.81   |
| Forfeited                     | (638)                                  | 22.80   |
| Unvested, end of period       | 4,668                                  | \$ 22.82  |

As of October 31, 2020, there was \$0.1 million of unrecognized compensation cost related to unvested awards granted under each of the 2016 Parametric Plan and the 2018 Parametric Plan. The expense associated with these awards is expected to be recognized over a weighted-average period of 1.7 years and 3.0 years, respectively.

*Subsequent event*

Pursuant to the terms of the Merger Agreement with Morgan Stanley, all outstanding unvested awards granted under each of the 2016 Parametric Plan and the 2018 Parametric Plan vested and settled in shares of the Company's Non-Voting Common Stock on December 4, 2020. Upon vesting, the remaining unrecognized grant date fair value attributable to these awards was recognized as compensation expense.

***Stock Option Income Deferral Plan***

The Company has established an unfunded, non-qualified Stock Option Income Deferral Plan to permit key employees to defer recognition of income upon exercise of non-qualified stock options previously granted by the Company. As of October 31, 2020, options to purchase 0.2 million shares have been exercised and placed in trust with the Company.

*Subsequent event*

In connection with the proposed acquisition of Eaton Vance by Morgan Stanley, the Board has consented to the termination of the Stock Option Income Deferral Plan. All outstanding positions in such plan will close and settle in shares of the Company's Non-Voting Common Stock prior to the close of the proposed acquisition of Eaton Vance by Morgan Stanley.

#### **14. Employee Benefit Plans**

***Profit Sharing and Savings Plan***

The Company has a Profit Sharing and Savings Plan for the benefit of employees. The Profit Sharing and Savings Plan is a defined contribution profit sharing plan with a 401(k) deferral component. All full-time employees who have met certain age and length of service requirements are eligible to participate in the plan. The plan allows participating employees to make elective deferrals of compensation up to the plan's annual limits. The Company then matches each participant's contribution on a dollar-for-dollar basis to a maximum of \$2,000 per annum. In addition, the Company may, at its discretion, contribute up to 15 percent of eligible employee compensation to the plan, to a maximum of \$42,000, \$41,250 and \$40,500 per employee for the years ended October 31, 2020, 2019 and 2018. The Company's expense under the plan was \$35.1 million, \$31.3 million and \$29.5 million for the years ended October 31, 2020, 2019 and 2018, respectively.

***Supplemental Profit Sharing Retirement Plan***

The Company has an unfunded, non-qualified Supplemental Profit Sharing Retirement Plan whereby certain key employees of the Company may receive profit sharing contributions in excess of the amounts allowed under the Profit Sharing and Savings Plan. Participation in the Supplemental Profit Sharing Retirement Plan has been frozen and is restricted to employees who qualified as participants on November 1, 2002. The Company did not make any contributions to the plan in fiscal 2020. Participants in the Supplemental Profit Sharing Retirement Plan continue to earn investment returns on their balances commensurate with those earned in the employer-directed portion of the Profit Sharing and Savings Plan. The Company's expense under the Supplemental Profit Sharing Retirement Plan for the years ended October 31, 2020, 2019 and 2018 was \$12,952, \$28,312 and \$1,128, respectively.

*Subsequent event*

In connection with the proposed acquisition of Eaton Vance by Morgan Stanley, the Board has consented to the termination of the Supplemental Profit Sharing Retirement Plan. All outstanding positions in such plan will close and settle in cash prior to the close of the proposed acquisition of Eaton Vance by Morgan Stanley.

#### **15. Common Stock**

All outstanding shares of the Company's Voting Common Stock are deposited in a voting trust, the trustees of which have unrestricted voting rights with respect to the Voting Common Stock. The trustees of the voting trust are all officers of the Company. Non-Voting Common shares do not have voting rights under any circumstances. During fiscal 2020, the Company issued 55,708 shares and repurchased 13,927 shares of its Voting Common Stock.

The Company's Non-Voting Common Stock share repurchase program was authorized on July 10, 2019. The Board authorized management to repurchase and retire up to 8.0 million shares of its Non-Voting Common Stock on the open market and in private transactions in accordance with applicable securities laws. The Company's share repurchase program is not subject to an expiration date, however, open-market purchases of common stock are prohibited by the Merger Agreement with Morgan Stanley while the merger is pending.

In fiscal 2020, the Company purchased and retired approximately 4.2 million shares of its Non-Voting Common Stock under the current repurchase authorization, which includes shares of Non-Voting Common Stock repurchased to meet withholding tax obligations upon the vesting of restricted share awards.

*Subsequent event*

Pursuant to the terms of the Merger Agreement with Morgan Stanley, holders of the outstanding shares of the Company's common stock were entitled to receive a special cash dividend of \$4.25 per share of Eaton Vance Common Stock held. On November 23, 2020, the Company declared this special cash dividend payable to shareholders of record as of the close of business on December 4, 2020. The special cash dividend of \$494.9 million was paid on December 18, 2020.

**16. Non-operating Income (Expense)**

The components of non-operating income (expense) for the years ended October 31, 2020, 2019 and 2018 were as follows:

| <i>(in thousands)</i>   | <b>2020</b>        | <b>2019</b>      | <b>2018</b>        |
|---|--------------------|------------------|--------------------|
| Interest and other income   | \$ 25,336          | \$ 43,665        | \$ 35,150          |
| Net gains (losses) on investments and derivatives <sup>(1)</sup>            | (21,613)           | 8,255            | (24,319)           |
| Net foreign currency losses   | (480)              | (880)            | (765)              |
| Gains and other investment income, net                                      | 3,243              | 51,040           | 10,066             |
| Interest expense  | (23,940)           | (23,795)         | (23,629)           |
| Other income (expense) of consolidated CLO entities:                        |                    |                  |                    |
| Interest income   | 73,307             | 74,512           | 14,883             |
| Net gains (losses) on bank loans and other investments and note obligations | (37,184)           | (4,240)          | 1,999              |
| Gains and other investment income, net                                      | 36,123             | 70,272           | 16,882             |
| Structuring and closing fees  | (8,251)            | (6,337)          | (4,830)            |
| Interest expense  | (46,950)           | (53,013)         | (10,456)           |
| Interest and other expense  | (55,201)           | (59,350)         | (15,286)           |
| <b>Total non-operating income (expense)</b>                                 | <b>\$ (39,775)</b> | <b>\$ 38,167</b> | <b>\$ (11,967)</b> |

<sup>(1)</sup> Fiscal 2018 includes a \$6.5 million loss associated with the Company's determination not to exercise its option to acquire an additional 26 percent ownership in Hexavest.

## 17. Income Taxes

The provision for income taxes for the years ended October 31, 2020, 2019 and 2018 consists of the following:

| <i>(in thousands)</i> | <b>2020</b>      | <b>2019</b>       | <b>2018</b>       |
|-----------------------|------------------|-------------------|-------------------|
| <b>Current:</b>       |                  |                   |                   |
| Federal               | \$ 38,798        | \$ 100,812        | \$ 104,510        |
| State                 | 9,756            | 29,938            | 26,942            |
| <b>Deferred:</b>      |                  |                   |                   |
| Federal               | 28,488           | 3,222             | 24,894            |
| State                 | 6,858            | 1,280             | 357               |
| <b>Total</b>          | <b>\$ 83,900</b> | <b>\$ 135,252</b> | <b>\$ 156,703</b> |

On December 22, 2017, the Tax Cuts and Jobs Act (2017 Tax Act) was signed into law in the U.S. Among other significant changes, the 2017 Tax Act reduced the statutory federal income tax rate for U.S. corporate taxpayers from a maximum of 35 percent to 21 percent and required the deemed repatriation of foreign earnings not previously subject to U.S. taxation.

The following table reconciles the U.S. statutory federal income tax rate to the Company's effective tax rate for the years ended October 31, 2020, 2019 and 2018:

|  | <b>2020</b>   | <b>2019</b>   | <b>2018</b>   |
|--|---------------|---------------|---------------|
| Statutory U.S. federal income tax rate <sup>(1)</sup>                      | 21.0 %        | 21.0 %        | 23.3 %        |
| State income tax, net of federal income tax benefits                       | 5.0           | 4.7           | 4.4           |
| Net income attributable to non-controlling and other beneficial interests  | 0.3           | (1.2)         | (0.7)         |
| Non-recurring impact of U.S. tax reform                                    | -             | -             | 4.4           |
| Stock-based compensation   | (0.1)         | 0.2           | 0.4           |
| Net excess tax benefits from stock-based compensation plans <sup>(2)</sup> | (2.7)         | (1.0)         | (3.2)         |
| Other items  | 1.6           | 0.5           | 0.2           |
| <b>Effective income tax rate</b>   | <b>25.1 %</b> | <b>24.2 %</b> | <b>28.8 %</b> |

<sup>(1)</sup> The Company's statutory U.S. federal income tax rate for the year ended October 31, 2018 was a blend of 35 percent and 21 percent based on the number of days in the Company's fiscal year before and after the January 1, 2018 effective date of the reduction in the federal corporate income tax rate pursuant to the 2017 Tax Act.

<sup>(2)</sup> Reflects the impact of the adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which was adopted by the Company as of November 1, 2017 and requires additional paid-in-capital to be recognized as income tax benefit or income tax expense in the period of vesting or settlement.

The Company's income tax provision for the year ended October 31, 2020 included \$5.7 million of charges associated with certain provisions of the 2017 Tax Act taking effect for the Company in fiscal 2019, relating principally to limitations on the deductibility of executive compensation. The Company's income tax provision was reduced by net excess tax benefits of \$9.0 million related to the exercise of employee stock options and vesting of restricted stock awards during the period. Additionally, the income tax provision increased by \$1.3 million related to net income attributable to redeemable non-controlling interests and other beneficial interests, which is not taxable to the Company.

The Company's income tax provision for the year ended October 31, 2019 included \$3.2 million of charges associated with certain provisions of the 2017 Tax Act taking effect for the Company in fiscal 2019, relating principally to limitations on the deductibility of executive compensation. The Company's income tax provision was reduced by net excess tax benefits of \$5.4 million related to the exercise of employee stock options and vesting of restricted stock awards during the period, and \$8.4 million related to the net income attributable to redeemable non-controlling interests and other beneficial interests, which is not taxable to the Company.

The Company's income tax provision for the year ended October 31, 2018 included a non-recurring charge of \$24.0 million to reflect the enactment of the 2017 Tax Act. This non-recurring charge was based on guidance issued by the Internal Revenue Service (IRS) and the Company's interpretation of certain provisions of the tax law changes. The charge consists of \$21.2 million from the revaluation of the Company's deferred tax assets and liabilities and \$2.8 million for the deemed repatriation of foreign-sourced net earnings not previously subject to U.S. taxation. The Company's income tax provision was reduced by net excess tax benefits of \$17.5 million related to the exercise of stock options and vesting of restricted stock during the period, and \$4.4 million related to the net income attributable to redeemable non-controlling interests and other beneficial interests, which is not taxable to the Company.

As of October 31, 2020, the Company considers the undistributed earnings of certain foreign subsidiaries to be permanently reinvested, and not available to fund U.S. operations. As of that date, the Company had approximately \$11.6 million of undistributed foreign earnings, primarily from operations in the U.K., which are not available to fund U.S. operations or to distribute to shareholders unless repatriated. In consideration of the treatment of taxable distributions under the 2017 Tax Act, the impact of Global Intangible Low Taxed Income on the Company's future foreign earnings and lack of withholding tax imposed by certain foreign governments, any future tax liability with respect to repatriating these undistributed earnings is immaterial.

As of October 31, 2019, the Company had approximately \$8.5 million of undistributed earnings from its Canadian subsidiary. As of April 2019, the Company no longer considered the undistributed earnings of its Canadian subsidiary to be indefinitely reinvested in foreign operations. This change in assertion allowed the Canadian subsidiary to declare and pay a \$65.2 million dividend in April 2019 to its U.S. parent company, which is a wholly-owned subsidiary of the Company. The payment of this dividend had no financial statement impact, as all previously undistributed earnings from the Canadian subsidiary were subject to taxation in fiscal 2018 due to the 2017 Tax Act. The dividend did, however, result in a \$0.5 million reduction in our fiscal 2019 tax expense due to a realized foreign exchange loss.

The reported amount of deferred income taxes included in the Company's Consolidated Balance Sheet includes a deferred tax asset for the excess of the underlying tax basis of the Company's 49% equity-method investment in Hexavest over its carrying amount (outside basis difference). As discussed further in Note 4, during fiscal 2020, the Company recognized an other-than-temporary impairment charge to write down the carrying amount of its investment in Hexavest to fair value. The other-than-temporary impairment charge did not affect the Company's tax basis in this investment. The Company determined that the entire gross deferred tax asset attributable to the outside basis difference in the Company's investment in Hexavest of \$18.2 million as of October 31, 2020 (of which \$16.6 million is attributable to the recognition of the other-than-temporary impairment charge) is more likely than not unrealizable and therefore recorded a valuation allowance for the entire amount. No other valuation allowances have been recorded for deferred tax assets as of October 31, 2020.



Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the Company's assets and liabilities. The significant components of deferred income taxes were as follows:

| <i>(in thousands)</i>  | <b>2020</b>        | <b>2019</b>        |
|--|--------------------|--------------------|
| <b>Deferred tax assets:</b>  |                    |                    |
| Lease liability  | \$ 74,831          | \$ -               |
| Stock-based compensation   | 23,926             | 45,505             |
| Investment basis in partnerships                                   | -                  | 25,245             |
| Deferred rent  | -                  | 8,017              |
| Differences between book and tax bases of investments              | 33,922             | 7,893              |
| Differences between book and tax bases of goodwill and intangibles | 9,832              | -                  |
| Compensation and benefit expense                                   | 5,741              | 5,259              |
| Federal benefit of unrecognized state tax benefits                 | 352                | 282                |
| Other  | -                  | 193                |
| <b>Gross deferred tax assets</b>                                   | <b>148,604</b>     | <b>92,394</b>      |
| Valuation allowance  | (18,166)           | -                  |
| <b>Total deferred tax asset</b>                                    | <b>\$ 130,438</b>  | <b>\$ 92,394</b>   |
| <b>Deferred tax liabilities:</b>                                   |                    |                    |
| ROU Asset  | \$ (63,073)        | \$ -               |
| Deferred sales commissions   | (15,510)           | (14,189)           |
| Differences between book and tax bases of property                 | (13,292)           | (7,270)            |
| Differences between book and tax bases of goodwill and intangibles | -                  | (8,218)            |
| Investment basis in partnerships                                   | (4,659)            | -                  |
| Unrealized gains on derivative instruments                         | -                  | (56)               |
| Other  | (481)              | -                  |
| <b>Total deferred tax liability</b>                                | <b>\$ (97,015)</b> | <b>\$ (29,733)</b> |
| <b>Net deferred tax asset</b>                                      | <b>\$ 33,423</b>   | <b>\$ 62,661</b>   |

Other than as discussed above, no valuation allowances have been recorded for deferred tax assets as of October 31, 2020, reflecting management's belief that the deferred tax assets will be utilized. As of October 31, 2019, no valuation allowance was recorded for deferred tax assets.

The changes in gross unrecognized tax benefits, excluding interest and penalties, for the years ended October 31, 2020, 2019 and 2018 were as follows:

| <i>(in thousands)</i>                                    | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|-------------|
| Beginning balance  | \$ 743      | \$ 695      | \$ 1,029    |
| Additions for tax positions of prior years               | 393         | -           | 7           |
| Additions based on tax positions related to current year | 106         | 74          | 93          |
| Reductions for tax positions of prior years              | -           | (26)        | -           |
| Decrease - Settlements                                   | (394)       | -           | -           |
| Lapse of statute of limitations                          | -           | -           | (434)       |
| Ending balance   | \$ 848      | \$ 743      | \$ 695      |

Unrecognized tax benefits, if recognized, would reduce the income tax provision by \$0.8 million, \$0.7 million and \$0.7 million, respectively, for the years ended October 31, 2020, 2019 and 2018.

The Company recognized \$0.3 million, \$0.1 million and \$0.1 million, respectively, in interest and penalties in its income tax provision for the years ended October 31, 2020, 2019 and 2018, respectively. Accrued interest and penalties, which are included as a component of unrecognized tax benefits, totaled \$1.1 million and \$0.8 million at October 31, 2020 and 2019, respectively.

The Company believes that it is reasonably possible that approximately \$0.8 million of its currently remaining unrecognized tax benefits, each of which are individually insignificant, may be recognized within the next 12 months as a result of a lapse of the statute of limitations and settlements with state taxing authorities.

The Company is generally no longer subject to income tax examinations by U.S. federal, state, local or non-U.S. taxing authorities for fiscal years prior to fiscal 2017.

## **18. Non-controlling and Other Beneficial Interests**

Non-controlling and other beneficial interests are as follows:

### ***Non-redeemable non-controlling interests***

Non-redeemable non-controlling interests consist entirely of unvested interests granted to employees of the Company's majority-owned subsidiaries. These grants become subject to holder put rights upon vesting and are reclassified to temporary equity as vesting occurs.

### ***Redeemable non-controlling interests at fair value***

Redeemable non-controlling interests include vested interests held by employees of the Company's majority-owned subsidiaries and are recorded in temporary equity at estimated redemption value. Future payments to purchase these interests reduce temporary equity. Future changes in the redemption value of these interests are recognized as increases or decreases to additional paid-in capital. Redeemable non-controlling interests also include interests in the Company's consolidated sponsored funds, given that investors in those funds may request withdrawals at any time.

In the fourth quarter of fiscal 2019, the Company purchased all remaining outstanding non-controlling profit and capital interests in Parametric held by current and former Parametric employees (see Note 10).

The components of net (income) loss attributable to non-controlling and other beneficial interests for the years ended October 31, 2020, 2019 and 2018 were as follows:

| <i>(in thousands)</i>  | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|-------------|
| Consolidated sponsored funds   | \$ 10,560   | \$ (20,081) | \$ 232      |
| Majority-owned subsidiaries  | (5,378)     | (12,760)    | (16,199)    |
| Net (income) loss attributable to non-controlling and other beneficial interests | \$ 5,182    | \$ (32,841) | \$ (15,967) |

## 19. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of tax, for the years ended October 31, 2020, 2019 and 2018 were as follows:

| <i>(in thousands)</i>  | Unamortized<br>Net Losses on<br>Cash Flow<br>Hedges <sup>(1)</sup> | Net Unrealized<br>Gains on<br>Available-for-Sale<br>Investments | Foreign Currency<br>Translation<br>Adjustments <sup>(2)</sup> | Total       |
|--|--|---|---|-------------|
| Balance at October 31, 2017  | \$ 301   | \$ 4,128  | \$ (51,903)   | \$ (47,474) |
| Other comprehensive income (loss),<br>before reclassifications and tax                                   | -  | 2,409   | (5,192)   | (2,783)     |
| Tax impact   | -  | (699)   | -   | (699)       |
| Reclassification adjustments, before tax   | (132)  | (2,940)   | -   | (3,072)     |
| Tax impact   | 31   | 816   | -   | 847         |
| Net current period other comprehensive<br>loss   | (101)  | (414)   | (5,192)   | (5,707)     |
| Balance at October 31, 2018  | \$ 200   | \$ 3,714  | \$ (57,095)   | \$ (53,181) |
| Cumulative effect adjustment upon<br>adoption of new accounting standard<br>(ASU 2016-01) <sup>(3)</sup> | -  | (3,714)   | -   | (3,714)     |
| Balance at November 1, 2018, as adjusted   | 200  | -   | (57,095)  | (56,895)    |
| Other comprehensive loss, before<br>reclassifications and tax  | -  | -   | (1,322)   | (1,322)     |
| Reclassification adjustments, before tax   | (133)  | -   | -   | (133)       |
| Tax impact   | 33   | -   | -   | 33          |
| Net current period other comprehensive<br>loss   | (100)  | -   | (1,322)   | (1,422)     |
| Balance at October 31, 2019  | \$ 100   | \$ -  | \$ (58,417)   | \$ (58,317) |
| Other comprehensive loss, before<br>reclassifications and tax  | -  | -   | (4,859)   | (4,859)     |
| Reclassification adjustments, before tax   | (219)  | -   | -   | (219)       |
| Tax impact   | 119  | -   | -   | 119         |
| Net current period other comprehensive<br>loss   | (100)  | -   | (4,859)   | (4,959)     |
| Balance at October 31, 2020  | \$ -   | \$ -  | \$ (63,276)   | \$ (63,276) |

<sup>(1)</sup> Amounts reclassified from accumulated other comprehensive loss, net of tax, represent the amortization of net gains on qualifying derivative financial instruments formerly designated as cash flow hedges.

<sup>(2)</sup> Balances at October 31, 2020, 2019 and 2018, respectively, include cumulative foreign currency translation losses of \$58.2 million, \$54.3 million and \$52.5 million with respect to the Company's wholly-owned Canadian subsidiary, EVMC.

<sup>(3)</sup> Upon adoption of ASU 2016-01 on November 1, 2018, unrealized holding gains, net of related income tax effects, attributable to investments in non-consolidated sponsored funds and other investments previously classified as available-for-sale investments were reclassified from accumulated other comprehensive loss to retained earnings.

## 20. Earnings per Share

The following table sets forth the calculation of earnings per basic and diluted shares for the years ended October 31, 2020, 2019 and 2018:

| <i>(in thousands, except per share data)</i>              | 2020       | 2019       | 2018       |
|---|------------|------------|------------|
| Net income attributable to Eaton Vance Corp. shareholders | \$ 138,516 | \$ 400,035 | \$ 381,938 |
| Weighted-average shares outstanding – basic               | 109,617    | 110,064    | 114,745    |
| Incremental common shares                                 | 6,118      | 4,324      | 8,187      |
| Weighted-average shares outstanding – diluted             | 115,735    | 114,388    | 122,932    |
| Earnings per share:                                       |            |            |            |
| Basic   | \$ 1.26    | \$ 3.63    | \$ 3.33    |
| Diluted   | \$ 1.20    | \$ 3.50    | \$ 3.11    |

Antidilutive common shares related to stock options and unvested restricted stock excluded from the computation of earnings per diluted share were approximately 8.4 million, 6.0 million and 2.1 million for the years ended October 31, 2020, 2019 and 2018, respectively.

## 21. Commitments and Contingencies

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

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

Other commitments and contingencies include puts and calls related to non-controlling profit interests granted under the Atlanta Capital Plan (see Note 10).

The Company could be subject to litigation related to any failure to complete the merger or related to any legal proceeding commenced against the Company or Morgan Stanley to perform their respective obligations under the Merger Agreement. If the merger is not completed, these risks may materialize and may adversely affect the Company's businesses, financial condition, financial results, ratings, stock prices and/or bond prices.

### *Contingent Consideration*

In the fourth quarter of fiscal 2020, the Company, through its wholly-owned subsidiary Eaton Vance Investment Counsel, acquired substantially all of the assets of WaterOak. This transaction was accounted for as an asset acquisition. As part of the total cost of the acquisition, the Company incurred a contingent liability of \$19.3 million (reported within other liabilities on the Company's Consolidated Balance Sheet) representing future cash payments to be made based on a prescribed multiple of WaterOak's attributable EBITDA for each twelve-month period ending October 31, 2021, 2022, 2023, and 2024. See Note 10 for further information.

### *Payments to Holders of Stock Options upon Completion of the Merger*

Pursuant to the terms of the Merger Agreement with Morgan Stanley, upon the completion of the proposed acquisition of Eaton Vance by Morgan Stanley, each then outstanding and unexercised Eaton Vance stock option, whether vested or unvested, will be deemed to have been vested in full and cancelled and converted into the right to receive a cash payment. The amount of the cash payment will be equal to the excess of the per share cash consideration payable by Morgan Stanley to acquire the Company's Non-Voting Common Stock as of the closing date over the stock option exercise price (in-the-money amount of the option), plus, for holders of options who continue to provide services to the Company upon completion of the proposed acquisition, the amount by which, if any, the Black-Scholes option value of the option as calculated in the manner prescribed in the Merger Agreement exceeds the in-the-money amount of the option. Holders of vested stock options may continue to exercise their options prior to the closing date. The Company's obligation to make the aforementioned cash payments to holders of outstanding options is contingent on the close of the transaction. Although the amount of these cash payments may be significant, an estimate of such payments cannot be made since the payment amounts are dependent on both the number of options outstanding at the closing date and various market-based variables that cannot be measured until the closing date, including the price of Morgan Stanley Common Stock.

### *Payment to Unaffiliated Investment Banking Firm upon Completion of Merger*

In fiscal 2020, the Company engaged an unaffiliated investment banking firm to provide certain financial advisory services in connection with a potential sale or merger transaction involving the Company. The investment banking firm's compensation in connection with the Company's proposed acquisition by Morgan Stanley is contingent upon the completion of the transaction and will be calculated as a percentage of aggregate consideration paid. Accordingly, the Company has not yet recognized any amounts related to the payment as of October 31, 2020.

## 22. Related Party Transactions

### *Sponsored funds*

The Company is an investment adviser to, and has administrative agreements with, certain funds that it sponsors for which employees of the Company are officers and/or directors. Substantially all of the services to these entities for which the Company earns a fee, including management, distribution and shareholder services, are provided under contracts that set forth the services to be provided and the fees to be charged. Certain of these contracts are subject to annual review and approval by the funds' boards of directors or trustees.

Revenues for services provided or related to sponsored funds for the years ended October 31, 2020, 2019 and 2018 were as follows:

| <i>(in thousands)</i>                              | <b>2020</b>  | <b>2019</b>  | <b>2018</b>  |
|--|--------------|--------------|--------------|
| Management fees                                    | \$ 1,012,608 | \$ 999,256   | \$ 1,015,263 |
| Distribution and underwriter fees                  | 77,056       | 85,612       | 97,371       |
| Service fees                                       | 131,724      | 123,073      | 122,231      |
| Shareholder service fees included in other revenue | 4,874        | 6,435        | 6,107        |
| Total  | \$ 1,226,262 | \$ 1,214,376 | \$ 1,240,972 |

For the years ended October 31, 2020, 2019 and 2018, the Company contractually waived management fees it was otherwise entitled to receive of \$21.5 million, \$19.1 million and \$17.6 million, respectively. Separately, for the same periods, the Company provided subsidies to sponsored funds of \$24.0 million, \$27.7 million and \$26.9 million, respectively. Fee waivers and fund subsidies are recognized as a reduction to management fees on the Consolidated Statements of Income.

Sales proceeds and net realized gains for the years ended October 31, 2020, 2019 and 2018 from investments in non-consolidated sponsored funds were as follows:

| <i>(in thousands)</i> | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|-----------------------|-------------|-------------|-------------|
| Proceeds from sales   | \$ 15,902   | \$ 7,831    | \$ 21,192   |
| Net realized gains    | 30          | 5,505       | 3,240       |

The Company pays all ordinary operating expenses of certain sponsored funds (excluding investment advisory and administrative fees) for which it earns an all-in management fee. For the years ended October 31, 2020, 2019 and 2018, expenses of \$11.1 million, \$13.2 million and \$14.2 million, respectively, were incurred by the Company pursuant to these arrangements.

Included in management fees and other receivables at October 31, 2020 and 2019 are receivables due from sponsored funds of \$107.8 million and \$104.1 million, respectively. Included in accounts payable and accrued expenses at October 31, 2020 and 2019 are payables due to sponsored funds of \$1.4 million and \$2.2 million, respectively, relating primarily to fund subsidies.

### ***Loan to affiliate***

On December 23, 2015, EVMC, a wholly owned subsidiary of the Company, loaned \$5.0 million to Hexavest under a term loan agreement to seed a new investment strategy. The loan renews automatically for an additional one-year period on each anniversary date unless written termination notice is provided by EVMC. Through October 31, 2018, the Company earned interest equal to the one-year Canadian Dollar Offered Rate plus 200 basis points. In November 2018, the Company amended the term loan agreement to reduce the market interest rate of the loan to be equal to the one-year Canadian Dollar Offered Rate plus 100 basis points. Hexavest may prepay the loan in whole or in part at any time without penalty. The Company recorded \$0.2 million of interest income related to the loan in gains (losses) and other investment income, net, in the Company's Consolidated Statement of Income during the fiscal years ended October 31, 2020 and 2019. Interest due from Hexavest under this arrangement included in other assets on the Company's Consolidated Balance Sheets was \$13,000 and \$15,000 at October 31, 2020 and 2019, respectively.

### ***Employee loan program***

The Company has established an Employee Loan Program under which a program maximum of \$20.0 million is available for loans to officers (other than executive officers) and other key employees of the Company for purposes of financing the exercise of employee stock options. Loans are written for a seven-year period, at varying fixed interest rates (currently ranging from 0.4 percent to 2.9 percent), are payable in annual installments commencing with the third year in which the loan is outstanding and are collateralized by the stock issued upon exercise of the option. All loans under the program must be made on or before October 31, 2022. Loans outstanding under this program, which are full recourse in nature, are reflected as notes receivable from stock option exercises in shareholders' equity and totaled \$7.1 million and \$8.4 million at October 31, 2020 and 2019, respectively.

## **23. Regulatory Requirements**

The Company is required to maintain net capital in certain regulated subsidiaries within a number of jurisdictions. Such requirements may limit the Company's ability to make withdrawals of capital from these subsidiaries.

EVD, a wholly-owned subsidiary of the Company and principal underwriter of the Eaton Vance-, Parametric- and Calvert-branded funds, is subject to the U.S. Securities and Exchange Commission's uniform net capital rule, which requires the maintenance of minimum net capital. For purposes of this rule, EVD had net capital of \$147.9 million at October 31, 2020, which exceeded its minimum net capital requirement of \$3.7 million as of such date. The ratio of aggregate indebtedness to net capital at October 31, 2020 was 0.38-to-1.

At October 31, 2020, the Company was required to maintain net capital in certain other regulated subsidiaries. The Company was in compliance with all applicable regulatory minimum net capital requirements.

## **24. Concentrations of Credit Risk and Significant Relationships**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents held. The Company maintains cash and cash equivalents with



various financial institutions. Cash deposits maintained at a financial institution may exceed the federally insured limit.

During the fiscal years ended October 31, 2020, 2019 and 2018, there were no sponsored funds or separate account customers, related funds or other clients that provided over 10 percent of the total revenue of the Company.

## 25. Geographic Information

Revenues by principal geographic area for the years ended October 31, 2020, 2019 and 2018 were as follows:

| <i>(in thousands)</i> | <b>2020</b> |                  | <b>2019</b> |                  | <b>2018</b> |                  |
|-----------------------|-------------|------------------|-------------|------------------|-------------|------------------|
| <b>Revenue:</b>       |             |                  |             |                  |             |                  |
| U.S.                  | \$          | 1,679,905        | \$          | 1,622,163        | \$          | 1,625,173        |
| International         |             | 50,460           |             | 61,089           |             | 67,249           |
| <b>Total</b>          | <b>\$</b>   | <b>1,730,365</b> | <b>\$</b>   | <b>1,683,252</b> | <b>\$</b>   | <b>1,692,422</b> |

Long-lived assets by principal geographic area as of October 31, 2020 and 2019 were as follows:

| <i>(in thousands)</i>     | <b>2020</b> |               | <b>2019</b> |               |
|---------------------------|-------------|---------------|-------------|---------------|
| <b>Long-lived Assets:</b> |             |               |             |               |
| U.S.                      | \$          | 69,961        | \$          | 71,000        |
| International             |             | 1,869         |             | 1,798         |
| <b>Total</b>              | <b>\$</b>   | <b>71,830</b> | <b>\$</b>   | <b>72,798</b> |

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

## 26. Comparative Quarterly Financial Information (Unaudited)

| <i>(in thousands, except per share data)</i> | 2020             |                   |                  |                   |              |
|--|------------------|-------------------|------------------|-------------------|--------------|
|  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Full Year    |
| Total revenue                                | \$ 452,554       | \$ 405,911        | \$ 420,819       | \$ 451,081        | \$ 1,730,365 |
| Operating income                             | \$ 134,719       | \$ 121,956        | \$ 131,221       | \$ (13,656)       | \$ 374,240   |
| Net income                                   | \$ 112,835       | \$ 28,056         | \$ 26,389        | \$ (33,946)       | \$ 133,334   |
| Net income attributable to Eaton             |                  |                   |                  |                   |              |
| Vance Corp. shareholders                     | \$ 103,985       | \$ 72,058         | \$ (1,593)       | \$ (35,934)       | \$ 138,516   |
| Earnings per Share:                          |                  |                   |                  |                   |              |
| Basic  | \$ 0.95          | \$ 0.66           | \$ (0.01)        | \$ (0.32)         | \$ 1.26      |
| Diluted                                      | \$ 0.91          | \$ 0.65           | \$ (0.01)        | \$ (0.31)         | \$ 1.20      |

| <i>(in thousands, except per share data)</i> | 2019             |                   |                  |                   |              |
|--|------------------|-------------------|------------------|-------------------|--------------|
|  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Full Year    |
| Total revenue                                | \$ 406,416       | \$ 411,861        | \$ 431,235       | \$ 433,740        | \$ 1,683,252 |
| Operating income                             | \$ 121,130       | \$ 127,173        | \$ 137,135       | \$ 135,433        | \$ 520,871   |
| Net income                                   | \$ 92,260        | \$ 113,130        | \$ 108,536       | \$ 118,950        | \$ 432,876   |
| Net income attributable to Eaton             |                  |                   |                  |                   |              |
| Vance Corp. shareholders                     | \$ 86,801        | \$ 101,807        | \$ 102,221       | \$ 109,206        | \$ 400,035   |
| Earnings per Share:                          |                  |                   |                  |                   |              |
| Basic  | \$ 0.77          | \$ 0.92           | \$ 0.94          | \$ 1.00           | \$ 3.63      |
| Diluted                                      | \$ 0.75          | \$ 0.89           | \$ 0.90          | \$ 0.96           | \$ 3.50      |

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the Board of Directors of Eaton Vance Corp.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Eaton Vance Corp. and subsidiaries (the "Company") as of October 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended October 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

## **Valuation of Investments in Equity Method Investees — Refer to Note 4 to the financial statements**

### *Critical Audit Matter Description*

The Company has a 49 percent equity interest in Hexavest Inc. (Hexavest), a Montreal, Canada-based investment adviser. The investment is accounted for under the equity method of accounting. Investments in equity method investees are evaluated for impairment as events or changes in circumstances indicate that the carrying value of the investment may not be recoverable. During fiscal 2020, Hexavest experienced a decline in managed assets and associated management fee revenue driven principally by client withdrawals. The Company performed impairment analyses at June 30, 2020 and October 31, 2020 to determine the recoverability of the carrying value of the investment in Hexavest.

The fair value of the Company's investment in Hexavest was estimated utilizing two valuation approaches, a discounted cash flow methodology under the income approach and a guideline public company methodology under the market approach. The valuations were prepared with the assistance of an independent valuation firm and reviewed and approved by Company management. The fair value of the Company's investment in Hexavest at the June 30, 2020 and October 31, 2020 valuation dates were calculated as \$32.7 million and \$11.4 million, respectively. The Company determined that the decline in fair value as of both these dates was other-than-temporary due to the severity of the difference between the carrying values and the estimated fair values of the investment. Accordingly, the Company recognized other-than-temporary impairment charges of \$100.5 million and \$21.7 million during the third and fourth quarter of the Company's fiscal year, respectively (\$122.2 million in total) to write down the carrying amount of its investment in Hexavest to fair value at each date.

Auditing the valuation of Hexavest involved a high degree of judgment and an increased extent of effort, including the need to involve our fair value specialists in evaluating management's judgments especially as it relates to market rate assumptions and discount rates, as well as the weightings of the income approach and market approach.

### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the fair value of Hexavest included the following:

- We tested the effectiveness of controls over the Company's valuation of Hexavest, including those related to model validation and verification of inputs.
- We evaluated the valuation methodologies used by the Company to determine whether they were consistent with generally accepted valuation practices.
- We evaluated certain of the Company's fair value assumptions by performing detailed procedures. These included, but were not limited to, the involvement of our fair value specialists in the evaluation of certain business assumptions and valuation assumptions, including managed asset projections, revenue growth projections and discount rates, and methodologies utilized in the valuation models.
  - We independently estimated the discount rate for Hexavest used by the Company in the income approach.

- We performed an analysis of inflation, economic, and industry growth statistics to determine whether Hexavest’s long-term growth rate used in the income approach fell within an acceptable range of the market data.
  - We evaluated the appropriateness of the Company’s selection of guideline public companies and the calculations of selected valuation multiples used by the Company in the market approach.
  - We evaluated the appropriateness of the Company’s weighting of the income approach and the market approach in the determination of fair value.
- We also held various discussions with the Company’s accounting and operations management regarding the business assumptions and future expected cash flows utilized in the valuation models. We performed testing of the completeness and accuracy of the underlying data used in the models and, on a test basis, obtained audit support to substantiate the assumptions utilized in the models.
  - We evaluated whether the assumptions used were consistent with evidence obtained in other areas of the audit.

***Valuation of the Assets of WaterOak Acquired and the Contingent Liability — Refer to Note 10 and Note 21 to the financial statements***

*Critical Audit Matter Description*

During the year, the Company acquired substantially all of the assets of WaterOak Advisors, LLC (“WaterOak”). Pursuant to the relevant accounting literature, the Company accounted for this transaction as an asset acquisition because substantially all of the fair value of the gross assets acquired was concentrated in a single identifiable intangible asset (i.e., client relationships).

The total cost to acquire WaterOak was \$48.1 million. At closing, the Company paid \$28.8 million in cash and incurred a contingent liability of \$19.3 million. The contingent liability represents the fair value of the future cash payments to be made based on a prescribed multiple of WaterOak’s attributable EBITDA for each twelve-month period ending October 31, 2021, 2022, 2023, and 2024. The Company used a Monte Carlo Simulation Model to determine the fair value of the Company’s estimated contingent liability given the non-linear nature of the arrangements.

The total cost of the acquisition was allocated to the assets acquired on the basis of their relative fair values. Determining the fair value of (1) the client relationships, (2) the tradename, and (3) the assembled workforce involves significant management judgment in estimating projections, forecasting growth rates used to produce financial projections for the assets, and the selection of unobservable inputs and other assumptions. The inputs used in establishing the fair value are in most cases unobservable and reflect the Company’s own judgments about the assumptions market participants would use in pricing the assets.

Auditing the valuations of (1) the gross assets acquired and (2) the contingent liability involved a high degree of judgment and an increased extent of effort, including the need to involve our fair value specialists, in evaluating management’s judgments especially as it relates to market rate assumptions, discount rates, and other unobservable inputs used in the Monte Carlo Simulation.

### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to (1) the fair value of WaterOak, (2) the fair value of client relationships, tradename and assembled workforce acquired, and (3) the fair value of the contingent liability, included the following:

- We tested the effectiveness of controls over the Company's valuation of WaterOak, including those related to model validation and verification of inputs.
- We evaluated the valuation methodologies used by the Company to determine whether they were consistent with generally accepted valuation practices.
- We evaluated certain of the Company's fair value assumptions by performing detailed procedures. These included, but were not limited to, the involvement of our fair value specialists in the evaluation of certain business assumptions and valuation assumptions, including managed asset projections, revenue growth projections and discount rates, and methodologies utilized in the valuation models.
  - We independently estimated the discount rate for WaterOak used by the Company in the income approach.
  - We performed an analysis of inflation, economic, and industry growth statistics to determine whether the Company's long-term growth rate used in the income approach fell within an acceptable range of the market data.
  - We evaluated the appropriateness of the Company's selection of guideline public companies and the calculation of asset volatility used by the Company in the Monte Carlo Simulation.
  - We independently estimated the fair value of the contingent liability through the preparation of a second independent Monte Carlo Simulation developed from the underlying Asset Purchase Agreement and using independently sourced input data. We compared the fair value estimate produced by the second independent model, to the model prepared by the Company.
- We also held various discussions with the Company's accounting and operations management regarding the business assumptions and future expected cash flows utilized in the valuation models. We performed testing of the completeness and accuracy of the underlying data used in the models and, on a test basis, obtained audit support to substantiate the assumptions utilized in the models.
- We evaluated whether the assumptions used were consistent with evidence obtained in other areas of the audit.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts  
December 22, 2020

We have served as the Company's auditor since 1959.

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## Investor Information

Eaton Vance Corp. has filed an Annual Report on Form 10-K with the Securities and Exchange Commission for the 2020 fiscal year. For a copy of the Company's Form 10-K, which is available free of charge to shareholders upon request, or other information regarding the Company, please contact:

**Laurie G. Hylton**

Vice President and Chief Financial Officer  
Eaton Vance Corp.  
Two International Place  
Boston, MA 02110  
617-482-8260

The Company's Form 10-K and other information about Eaton Vance Corp. are also available on the Company's website: [eatonvance.com](http://eatonvance.com). The Company has submitted to the New York Stock Exchange a certificate of the chief executive officer representing that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

**Transfer Agent and Registrar**

Computershare  
P.O. Box 505000  
Louisville, KY 40233-5000  
877-282-1168  
[computershare.com/investor](http://computershare.com/investor)

The Transfer Agent maintains shareholder account records and should be contacted regarding changes in address, name or ownership, lost certificates and consolidation of accounts. When corresponding with the Transfer Agent, shareholders should state the exact name(s) in which their stock is registered and the certificate number, as well as other pertinent account information.

**Independent Registered Public Accounting Firm**

Deloitte & Touche LLP  
200 Berkeley Street  
Boston, MA 02116  
617-437-2000  
[deloitte.com](http://deloitte.com)





## Directors and Officers

### Directors

Ann E. Berman <sup>(1,2,3)</sup>

Thomas E. Faust Jr.

Leo I. Higdon Jr. <sup>\*(2)</sup>

Paula A. Johnson M.D. <sup>(3)</sup>

Brian D. Langstraat

Dorothy E. Puhly <sup>(1,3)</sup>

Winthrop H. Smith Jr. <sup>(1,2,3)</sup>

Richard A. Spillane Jr. <sup>(2,3)</sup>

\*Lead Independent Director. Board Committees: 1. Audit, 2. Compensation, 3. Nominating and Governance

### Officers

Thomas E. Faust Jr.  
Chairman, Chief Executive Officer and President

Daniel C. Cataldo  
Vice President and Chief Administrative Officer

Julie E. Rozen  
Vice President and Chief Accounting Officer

Laurie G. Hylton  
Vice President and Chief Financial Officer

Frederick S. Marius  
Vice President, Secretary and Chief Legal Officer

Pierric G. Senay  
Vice President and Treasurer

## Our Mission and Core Values

Eaton Vance strives to be the premier investment management organization.

- We seek to provide clients with superior performance, top-quality service and value-added strategies across a range of investment disciplines and distribution channels.
- We seek to provide an attractive work environment and fulfilling careers for our dedicated employees.
- Through the success of clients and associates, we thereby seek to build long-term shareholder value.



### Integrity

Is honest in word and deed.

Adheres to the company's code of ethics, industry standards of business conduct and applicable law.

Deals fairly and forthrightly with clients, colleagues and business partners.



### Professionalism

Demonstrates maturity, dedication and a strong work ethic.

Behaves appropriately; is respectful of clients, colleagues and business partners and uses the company's resources wisely.

Responsible citizen of the communities in which we live and work.



### Teamwork

Communicates openly and collaborates with others to achieve shared goals.

Enhances the work experience of colleagues.

Supports workforce diversity and an inclusive work environment.



### Client Focus

Meets or exceeds client performance expectations.

Places the interests of clients first.



### Creativity/Adaptability

Develops business opportunities and process improvements.

Is open and adaptable to change.

Works to achieve personal development.



### Excellence

Achieves outstanding results for clients and shareholders.

Advances the record and reputation of Eaton Vance as an industry leader.



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Mark Lobbetael Nehemie Alcindor Bryan Holdt Amanda Woodgate Seth Goldzweig James Croom David White Joseph Whiting Kristen Grant Ryan Hartung Alexander Hovsepian Reed Lerner Scott Price Jacob Rife Colin Sammataro Samuel Shankel Wei Zhang Tyrone Gamby Joseph Bustros Sandra Oles Kerry Wasgatt Colton Blackman Nancy Curtin Christopher Powers Surya Rai Lillian Vezina Kirby Arens Doug Keagle Luke Murdock Andrew Carlson Randall Hegarty Christine Japhet Scott Tice Krishna Das Peter Graham Scott Kudlacik Esther Tam Vivek Vinayak Michael Broughton Lawrence Gingrow Scott Lindsay Chris Morahan Joseph Brody Cheryl Swanberg Robel Ghebremichael Alex Meyer Lisa Weiler Scott Albanese Katherine Walsh Michael Hill Ryan Martin Kimberly Roessinger Agneta Sheire Terry Stebner Matthew Groth Tin Mai Wei Mei Ashley Beckham Jesse Cauble Joshua Latimer Kellen Smith Daniel Sullivan Sarah Wood Max Chou Digajara Degaga Aaron Benedict Carolina Concannon Michael Dietrich Adam Gardner Justin Ward Alexandros Apostolidis Jie Yuan Taylor Jenkins Brian Smith Walter Lindsay Jay Schwartz Francis Coughlin Hari Thirumalai Zachary Gears Andrew Goodale Moran Zhang Nicholas Scalia Thomas Deang Richard Perrins Alex Woolbert Nicholas Hailey Julie Brezen Stephen Antanavage David Bloom Emily Casey Jennette Erickson John Hemingway Razzie Smith Jeffrey Leighton Connor O'Leary Tjalling Halbertsma Timothy Mamis Fan Bu Laurie Halulakos Billy Savanh Nicole Vicino Galina Warner Brian Hertzog Christopher Reed Arthur Driscoll Cristy O'Neil Paula Shea Kriti Tawfik Luke Brodzinski Morgan Baker Clifton Hunt Julie Schoening Matthew Bradley Dorothy Levine Brandon Lindley David Curran John Paul Botcheller Darrow DiBattista Gregg Fowler Maximilian Lutz Brian Goncalves Jack Bauer Hope Brown Imani Camp Stuart Dalheim Alexander Deleon Trudy Doyle Anthony Eames Brian Ellis Jade Huang Vishal Khanduja Christopher Madden Steven Matosziuk Reed Montague Andrew Olig Darrile Papier Christopher Santos Jason Schumacher Patrick Simpson 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Pazzino Patrick Persons Alec Schaefer Christian Costanza Bryan Adams Anthony Antonetti Cameron Cipolla Kristopher Frank Autrey Gates Kimberly Ginsberg Briana Howard Allison Mahoney Anthony Maiuri Connor McGuirk Andrew Schlumper Laura Griffiths William Cabell David Lee Steven Silver Andrew Stutzman Alba Alvarez Eva Wu Stephan McElreath Theresa Carignan Robert Black Hyunjin Yun Bryan Cassill Jeremy Corbett Jonathan Ferrazzani Ryan Helgeson Anthony Hutson Lane McLaughlin Jarren Petit Paul Shifflet Donald Wells Jacob Wolfe Priscilla Wong Catherine Hua Huy Le Dain Charbonneau James Gilloran Douglas Taylor Jeffrey Nizzardo Luke Webber Victoria Wiley Zachary Costello John Brophy Nicholas Gaskell Elif Senvardarli Alejandra Buenrostro Ramirez Robert Kuberski Carl Welton Laura McFerrin Thomas Body Jerome Reed Nicole Burshan Alyssa Creager Adwoa Poku Jordan Beksha Eric Colvin William Roeder Richard Froio Preeti Saxena Nicole Sonetti Thomas Finneran Bryan Sandvig Kiran Inamdar Laura Zalanskas 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Szczurowski Virginia Gockelman Jessica Savageau Lawrence Berman Kenneth Everding Helen Hedberg John Ring Kevin Longacre John Jannino Matthew Witkos Elaine Peretti Stephanie Rosander Kathleen Walsh Eileen Storz-Salino Brooke Beresh James Kirchner Tatiana Koltsova Rose-Lucie Croisiere Lance Garrison James Stafford Kyle Johns Ross Anderson Mary Gillespie Jake Lemle Robert Greene Donna Drewes Christopher Mitchell Steven Dansreau Tara O'Brien Jaime Smoller Judith Cranna Michelle Rousseau Mary Proler Stephanie McEvoy Andrew Valk Yinying Liu Laura Maguire Heather Dennehy Christopher Eustance Marc Bertrand Kyle Lee Andrew Waples Sean Kelly Louis Cobuccio Thomas Hardy Scott Weisel David Hanley Dan Stanger Praveenkumar Rapol Lisa Wolff Michael Deich Rey Santodomingo Zamir Klingner John Loy Mary Panza John Cullen Raya McAnern Albert Festa James Maynard Rachael Carey Michael Kelly Margaret Egan Christopher Nebons James Roccas Alice Li Charles McCrosson Michael Shattuck Michael Alexander Bernard 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Ashley Schulzetenberg Kelly Shelquist Jay Strohmaier Denise Timmons Christopher Uhas Mark Wacker Daniel Wamre Alex Zweber Mark Saindon Robert Ciro Scott Brindle Hussein Khattab Henry Rehberg Jennifer Sireklove AnnMarie DuBose Alexander Macrokianis Emily Finn Deborah Flood Jeffrey Boutin Timothy Robey Robert Swidey Mary Barsoom Benjamin King John Simeone Simon Mui Patrick Duffy A.J. Leimenstoll Kelly Finneran Milind Kanitkar Rachel Schaeffbauer Melanie Kramer Diane Gordon Thomas McMahon Michi McDonough Michael Finney Benjamin Hammes Christopher Burnet Raffi Samkiranian Kristen Novello Serena Johnstone Todd Johnson Mahesh Pritamani Juliet Todd Shawn Huerta Timothy Nelson Jared Pawelk Spencer Swan Charlotte Watkins Christopher Webb Alexander Amado Christopher Briant Bradley Galko Daniel Saltus James Thorson Marshall Stocker Jared Allen Ryan Cavanaugh Sophie Murray Christopher Cook Matthew Gile David Brinker Benjamin LeFevre Robert Rowe William Turner Charles Norvish Biana Perez Rachel LeBlanc Nokio Twumasi Steven Vanne Lauren Murphy Amir Vaziri Alan Arrington Kevin Pih Mamatha Chilumuthuru Isaiah Petersen William Spring Daniel Ryan Casey Foskett Caroline James Wenlei Sun Benjamin Adams Allen Wagner David Butters Erin Canon Holly Bragdon Heather Chapman David Glen William Reardon Ashley Allan Diogenes Balsam Nagabhushan Beeram Tracy Potorski Jesse Tobiasson Macki Anderson Amy Arslain Ryan Balko Michael Hebert Qiwen Liu Laura Sanders Robert Craig McHaffie Michael Jaje Benjamin Lazarus Lee Bertram Jennifer Rodas Jenna Baratto Joshua Rock Carolyn Cawley Steven Heck Ashley Pirkli Shiva Iyer Jacob Homchick Glenn Pardo Raewyn Williams Alba Asllanaj Erin Kandamar Elizabeth McDonough Michael Sullivan Scott VanSickle Jason Chalmers Paul Cocanour Heather Anderson Kathryn Salzi Daniel Cozzi Edward Perkin Ashok Nayak Bradford Thomas Andrew Spero Darrell Thompson Alexandra Argov Joseph Cinar Glenn Fitzsimmons Christopher Arthur Robb Allen Michael Bortnick Allison Goldie Nicholas Stahelski Jason Nelson Mark Bumann Miles Ferguson Elaine Kenney Wei Ge Justin Horner Joonmo Ku Tyler Nowicki Adam Swinney Scott Mackey Lauren McAllister Alli Tully Keith Jurczynski Abbas Jaffri Danielle OBrien Jeffrey Miller Keith Schweitzer Katherine Campbell Erin Nygard Lynn Parker Alfred Bonfantini Lindsay Dahlstrom Carlos Del Valle-Ortiz David Grean Jonathan Lahey Desmond Gallacher Kimberly Matisoff Roy Belen Karen Long Onix Marrero Clinton Taimo Cory Gately Yuepeng Li William Murray Vincent Primavera Kevin DeVito Andrew Scanlon Azyzah Sasry Christopher Ferrier Domini Gardner Joseph Zeck Amir Aliabadi Dorothy Maloney Richard Bissell Collin Schrier Steven Abbioso Matthew Butorac Kattie Elder Max Chisaka Holly DiCostanzo Robert Pieroni Alec Szczerbinski Nataliya Zubrylova Cory Gorski Alexander Lee William Busch Kathryn Griffin Tyler Pascucci Corinne Pekoske Samuel Reinhart Prachi Samudra Briton Wheeler Rob Anketell Peter Iodice Jun Li Paul Methylene David Morley Lucas Anderson Matthew Johnson Jennifer Kilroy Theodore Zwiag Matthew Mueller Jeffrey Denison Hasmid Haro Scott Linari David Mattson Jeffrey Mueller Glenn Bowens Andrew Cantrall Veronika Karova Patrice Spencer Bradley Gagnon-Palick Mary Primiterra Kathleen Koch Kyle Shanafelt David Miles Elizabeth Weisenhoff August Kristoferson Kathrine Vinciguerra Helena McGovern Ryan Olsen Alexander Payne Anne Darlington Adam Homicz Heather Wolf Steven Fahey Juan Garcia Corey O'Connor Georgia Emms Joseph Hudephel Jan Mowbray Colt Wolfram Mark Collins Christopher Dyer Aidan Farrell Marielle Gallant Andrew Lebowitz Jake McDougall Alison Wagner Peter Correggio Matthew Lieb Kathryn Muehpfel Matthew Morin Justin Ziegler Deanna Young Neal Cabanos Jeremy Catt Jonathan Alexander Cailly Carroll Suresh Sundaram Dane Fickel Gregory Gelinis Sandy Tam Tatjana Ryabchenko James McCourt Quinn Christofferson Gregory Lawson Audrey Ford Andrew McKee Raymond Singh Julija Coloma Alexander Dyson Nicholas Kirsch Hillary Kloeckner Gregory Bauer Robert Ankenbauer Elizabeth Pringle Katelyn Daignault Donandrea Myette Jacqueline Mills Tianchuan Li Anna Calcagno Henry Meuret Stephanie Uwwo Claus Roller Brian Johnson Emily Jones Alex Provencal Abigail Cammack William Bergen Kristin Carcio Amelia Wren Tiffany Lee Allen Mayer Samantha Pandolfi Alexa Whiteman Ian Kirwan Maria Calabrese Stephanie Hammond Iain McNaught Nakaba Minai Devendra Singh Manoj Sukumaran Kyle Buswell Kristopher Brassard Michael Zaslavsky Ryan Dazell Sandy Fortin John Holberg Shawn Klopp Morgan Woods

