Morgan Stanley

INVESTMENT MANAGEMENT

Sustainable Equity Investing

An equity approach that seeks to deliver an attractive return journey for clients

MACRO INSIGHT | EATON VANCE EQUITY GLOBAL TEAM | April 2025

- Central to our investment philosophy is a commitment to investing in sustainable business models as the mechanism to compound assets for clients.
- We believe that sustainable business models generate sustainable financial performance.
- Our proprietary research illustrates the benefits of investing in companies with a blend of—sales growth, gross margin and return on invested capital.
- Investment excellence from our disciplined use of our sustainability heatmap and proprietary portfolio exercises to combat behavioural biases.

Introduction: Sustainable wealth creation

Sustained wealth creation appeals to any investor. In our view, the key to long-term wealth creation is identifying and investing in companies that can sustain financial value creation by compounding earnings over time. Investing in such companies, we believe, forms the basis for a true buy-and-hold long-term wealth creation portfolio that could deliver sustained outperformance over multiyear periods. This appeal is universal to both individual and institutional investors.

In this paper, we will examine how such companies can be identified and appraised.[1] In addition, we will examine issues around the management of a sustainable equity portfolio—in particular, the risk to long-term wealth creation from management errors and how these can be avoided.

AUTHORS

IAN KIRWAN
Co-Head of Eaton Vance Equity Global Team

CHRIS DYER, CFA
Co-Head of Eaton Vance Equity Global Team

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

– Warren Buffett[2]

[1] The words "our" and "we" in this paper refer to our global equity team.
[2] Warren Buffett, Preface (1986): The Intelligent Investor (by Benjamin Graham).

Compounding – a guiding investment principle behind wealth creation

Compounding is a powerful force in finance and, for us, is the guiding principle behind ongoing wealth creation.

Albert Einstein reportedly described compound interest as "the eighth wonder of the world."[3] The word "compounding" is derived from the phrase "compound interest," a process whereby interest is credited not only to the principal balance, but also on any prior interest, dividends and capital gains earned. Compounding can thus be construed as interest on interest, with its effect being to magnify returns over time.

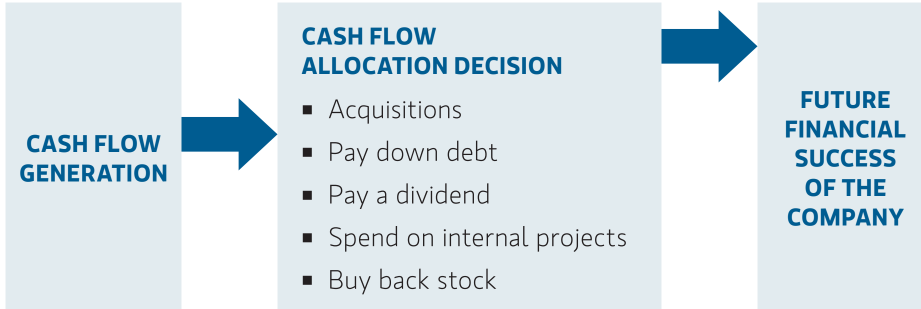
Conceptually, compounding can be understood as the snowball effect that occurs when your earnings generate even more earnings, so that your money grows faster and faster as the years roll on. This compounding effect can also be observed within specific businesses—hence the term "compounder" companies. These companies usually present good investment opportunities because the market has a tendency to diminish the economic profit they create too quickly and does not adequately discount it in current share prices.

"Compounder"companies – creating financial value over time

So what characteristics define a compounder company? In its simplest form, this is a business with

DISPLAY 1

Cash flow allocation choices



Source: Eaton Vance as at 12/31/2023. For illustrative purposes only.

consistently strong cash generation that successfully allocates that cash to generate value. The opportunities for this cash allocation are tied to a business's growth prospects. Value is created when the return on capital is above the cost of capital. If sustained over time, this helps to generate further growth and more cash flow, which, in turn, creates more investment opportunities and leads to a virtuous cycle of wealth creation. This idea of sustained financial value creation lies at the heart of our investment philosophy.

One way of thinking about true compounder companies is by likening them to strong, durable snowballs rolling down a hill, growing in size and gathering momentum. While the path can be bumpy at times, the quality and sustainability of their business models result in enduring financial value and wealth creation.

We often tell clients that the quality and sustainability of a business model are key tenets of interpreting financial success. Share prices go up and down on a daily basis for many reasons. Over the long run, however, we believe that a prerequisite for share price outperformance is a business model that delivers sustained value creation.

As we outlined earlier, a business needs a few key components to create financial value over time. First and foremost, it needs cash, whether generated itself or borrowed. How it allocates that cash will drive the future financial success of the business. A management team has five choices on how to allocate cash flow, as shown in *Display 1*.

These allocation decisions will dictate the earnings power of the company in the future. Put differently, such decisions will influence the pace and trajectory of the snowball we talked about previously. Snowballs (businesses) come in many shapes and sizes. Some are low quality and slushy. Others are strong, round and durable. The quality of the snowball and its

[3] For the global equity team, "sustainable equity investing" is about investing in sustainable business models with a view to enjoying sustained share price gains. We do not use the term "sustainable" or "sustainability" to mean purely ESG-driven investing. That said, we do incorporate financially material ESG considerations into our overall assessment of the long-term sustainability of individual businesses.

ability to gather more snow over time are what we analyze.

Based on many market studies, it seems fair to state that, historically, high and/or improving quality businesses, particularly when tied to secular growth, have outperformed the market.[4] Strong financial results have a direct bearing on relative share price performance over the long-term. For clients who want to manage their money from a long-term perspective, the concept of a strategy focused on stocks with good growth, profitability and return on capital is a simple one to grasp.

Assessing whether a business is creating financial value

To successfully compound financial value over time, a business needs to increase profitability and deliver a return on capital that surpasses its cost of capital. Most management teams of publicly quoted companies will tell you that this is what they do or aspire to do. The problem is that, in isolation, numbers such as earnings per share or free cash per share do not tell you whether real financial value creation is occurring. We believe all investors need to understand (1) how the key variables driving a business work collectively together over time and (2) how to measure financial success.

For a long time, we have been advocates of the Economic Value Added (EVA) measure as a helpful way to assess financial value creation. In simple terms, EVA ascribes a dollar value to the excess return on capital (i.e., above the cost of capital) that a company generates. We believe it helps illustrate whether a company is creating or destroying value over the long run. In a world where the differences between Generally Accepted Accounting Principles (GAAP) and adjusted earnings have grown larger and are creating more and more controversy, investors need to be able to see what cash earnings and cash returns are being generated.[5]

The EVA measure is also helpful to investors in that it indicates whether the decisions management makes on how to spend its cash (remember the five options we outlined earlier) are creating value. The idea behind EVA is that businesses are only truly profitable when they create wealth for their shareholders, and the measure of this goes beyond calculating net income. It includes the balance sheet in the calculation and encourages managers to think about assets as well as expenses in their decisions.

Empirical research on what kind of company makes a good long-term investment

So far, most of what we have outlined sounds sensible, but the key question is, so what? How can you try to add alpha and create a portfolio that could outperform over time from these broad statements alluding to financial value creation?

We conducted substantial research on this subject, using empirical data over a multidecade period. We ran various studies across many factors to ascertain the extent to which high-quality, well-run companies make good long-term investments.

Our research showed compellingly that there are three factors core to EVA creation: growth, profitability and return on capital. The results were not unexpected.

Growth is an obvious and fundamental necessity for any business to survive. The profitability of the business determines how many dollars are generated per unit of sales growth. That profit (also known as cash flow) is then allocated in one of the five ways outlined earlier. The payback from these investment decisions is measured by a company's return on capital. Our research, interestingly, highlighted that the interaction of these three factors is central to a company's financial success and share price performance over time.

Our studies focused on companies in developed markets, as represented by the MSCI World Index. Our research showed that companies with a combination of (1) high sales growth, (2) high gross margins and (3) high ROIC had a consistent tendency to outperform the market (i.e., MSCI World Index).

[4] There have been various studies looking at quality as a risk factor, what is meant by "quality" and which measures of quality have positive predictive value. Here, we cite three by HOLT, a corporate performance and valuation advisory service of Credit Suisse. Matthews B. and Holland D., "Wonderful Companies and the Quality Edge," September 2015; Matthews B. and Holland D., "Modelling Persistence in Corporate Profits by Industry and Estimating A Company's Fair Price," October 2013; Matthews B., Holland D., and Curry R., PhD., "The Measure of Quality," February 2016.

[5] Generally Accepted Accounting Principles (GAAP) are a collection of commonly followed accounting rules and standards for financial reporting.

Display 2 groups companies into five quintiles, with quintile 1 companies having the strongest combination of sales growth, gross margin and ROIC, while quintile five companies score the weakest on these measures. Relative to the MSCI World Index, quintile 1 has, over nearly three decades, delivered an annualized excess return of 2.5%. Both quintile 1 and quintile 2 have delivered meaningful excess returns with lower volatility over time than the index.

The research methodology involved breaking the MSCI World into 5 quintiles defined by equally weighted factors (Sales Growth, Gross Margin and ROIC). Quintile 1 was populated with companies demonstrating the highest combination of Sales Growth, Gross Margin, and ROIC, while Quintile 5 represented companies with the lowest combination. These quintile groupings were held for 5 years. A new quintile grouping was created every subsequent month and held for 5-years. The analysis, conducted over a multidecade period from 1990 to 2019, showed a clear, consistent outperformance of companies in the first and second quintiles relative to the market (MSCI World Index).

High-level conclusions of our research

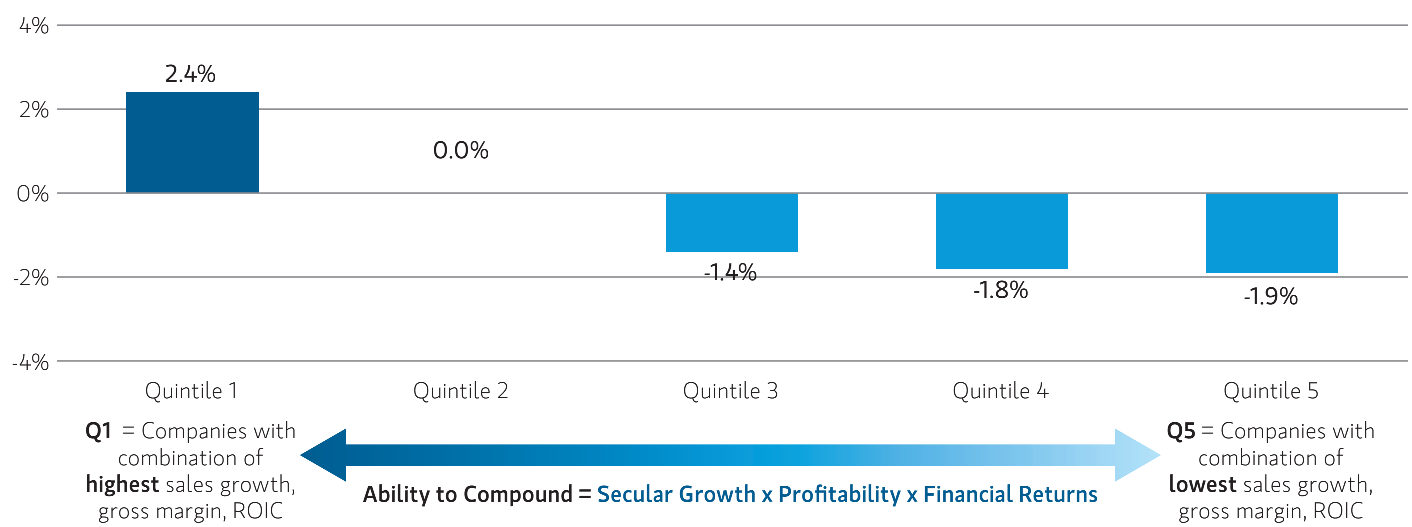
We made several high-level conclusions on the back of this research:

- There is a strong investment case for identifying companies scoring highly on these three financial key performance indicators (KPIs).
- The research highlighted where we should focus our analytical efforts when building a portfolio (i.e., there are quintile 1 and quintile 2 are the two quintiles to favor).
- There are short periods in a stock market cycle when the lower quintiles exhibit strong outperformance. We saw this in the late 1980s, after the dot-com bubble burst in 2000, immediately after the trough of the market during the financial crisis in 2009, and in Japan after Prime Minister Shinzo Abe's so-called Three Arrow Policy in 2012/13. This information is useful, as it allows us to understand when the portfolio is unlikely to outperform its investment universe. The good news is that this situation is both infrequent and unsustainable, typically lasting only for 6–18 months.
- Compounding works with sustained performance over time and we are not looking for short-term success at the expense of volatility and risk. Consequently, we tread carefully when owning stocks from the lower

DISPLAY 2

Companies with a combination of high sales growth, gross margins and returns on invested capital have shown a strong tendency to outperform

Annualized Excess Return vs. MSCI World (2001-2024)



Source: Calvert, FactSet and Barra. As of 12/31/2024. Study run for the period of 12/31/2001 to 12/31/2024 based on the holdings in the MSCI World Index. The MSCI World Index was broken into 5 quintiles defined by equally weighted factors (Sales Growth, Gross Margin and ROIC). Quintile 1 was populated with companies demonstrating the highest combination of Sales Growth, Gross Margin, and ROIC, while Quintile 5 represented companies with the lowest combination. These quintile groupings were tracked for 5 years. A new quintile grouping was created every subsequent month and tracked for 5-years. The quintiles in the above graph represent the market-weighted excess return of the combined groupings for each quintile over the full time period. The excess returns presented reflect hypothetical performance and do not represent returns that any investor actually attained. Please see the end of this material for important information and disclosure.

three quintiles. However, we will not automatically exclude them.

Blending and balancing the three factors

As with most things in life, balance is required. Push too hard on one factor, and the others will suffer. In isolation, each of these factors can move share prices up in the short term, but a blend of all three is required for long-term value creation. Thankfully, this can be boiled down into real numbers and measured. Let us examine each of these factors in more detail.

GROWTH. All the empirical work we have looked at illustrates the importance of growth. This is no surprise. We think of it as the gasoline that powers our compounding… or the speed at which our snowball rolls down the hill. A company can structurally grow over the long run in a number of ways:

- By increasing market share (profitably).
- By constantly innovating to stay ahead of competition.
- By participating in markets that are structurally growing.
- By increasing Total Addressable Market.[6]
- Inorganically, through a steady stream of acquisitions.

We seek to avoid companies where growth is being driven by:

- Price cutting.
- A short-term cyclical tail wind.
- A situation where market share gain among the main players is volatile and easily swapped around over time.

One challenge of investing in higher-growth companies is dealing with volatility as growth expectations waver. Distinguishing between high growth and sustainable/secular growth is critical. History is littered with speculative periods where growth investors made and then lost fortunes as they overestimated the prospects of disrupters and how quickly the benefits of disruption would come, or they simply got carried away with the valuations accorded to the shiny and new. All companies are a melting ice cube and it is our job to judge that erosion.

We like to find companies with products or services that are critical to customer success and make their businesses more efficient and profitable. Having proprietary technology or other sustainable competitive advantages is also very important.

PROFITABILITY. Profitability is a key input for financial value creation. For our empirical work, we focused on gross margin as an important factor. We also read and admired the work of Professor Robert Novy-Marx. His studies have attempted to define quality investing and how quality should be measured. He shows (2012) that a simple quality metric, gross profits-to-assets, has roughly as much power predicting the relative performance of different stocks as tried-and-true value measures like book-to-price.[7] He also compared gross profitability to a number of other quality strategies and it came out with the best excess return.

Most financial analysts spend a lot of time looking at net income, earnings per share (EPS) and return on equity (ROE). Novy-Marx comments, "The further down the income statement, the more polluted the profitability measures become."[8] He points to the fact that most accountants and financial analysts treat many forms of economic investment (e.g., R&D, advertising, sales commissions and human capital development) as expenses. These activities lower net income. However, they often increase future profitability. This makes earnings a poor proxy for true expected economic profitability. Therefore, while analysts spend a long time thinking about EPS and free cash flow, empirically, gross profit—almost at the top of the income statement—is a better predictor of a firm's future stock performance.

RETURN ON INVESTED CAPITAL. Finally, we have return on invested capital, which should come as no surprise as a prominent feature of financial quality. Most investors and good management teams agree that it is an important metric when assessing financial success. Credit Suisse's HOLT team has written extensively on CFROI (cash flow return on investment), as it forms the bedrock of its analysis and investment methodology.[9] They make some excellent points on why return on invested capital matters:

---

[6] Total Addressable Market (TAM), also referred to as total available market, is the overall revenue opportunity that is available to a product or service if 100% market share was achieved. Source: Corporate Finance Institute®.

[7] Novy-Marx, R. (2012). "The Other Side of Value: The Gross Profitability Premium." Simon Graduate School of Business, University of Rochester. Published in 2013 in the Journal of Financial Economics, Vol. 108, No. 1.

[8] Novy-Marx, R. (2012). "The Other Side of Value: The Gross Profitability Premium." Simon Graduate School of Business, University of Rochester. Published in 2013 in the Journal of Financial Economics, Vol. 108, No. 1.

[9] HOLT is a corporate performance and valuation advisory service of Credit Suisse.

- Corporate profitability and return on capital are sticky. Good companies tend to remain good companies, and poor companies tend to remain stuck in the mud. Sustainable corporate turnarounds are difficult to execute, and investors should be careful about overestimating the odds of success.
- Companies in defensive industries exhibit more stickiness in corporate profitability than firms in cyclical industries. Companies with an operational edge tend to maintain it, and those without that edge tend to repeat their operational mistakes.
- Firms with the strongest financial profiles tend to outperform those with the worst return on capital. The outperformance improves if high-quality firms are purchased at fair prices.

There is no correct answer as to what "good" return on capital looks like. It really is dependent on how aggressively a company is allocating capital (growth). This process can lead to dilution both for tangible fixed assets like PP&E (property, plant and equipment) being grown and from the increase in amortization and goodwill as a result of acquisitions. Companies that grow invested capital less and acquire less have more depreciated asset bases and likely higher returns. Sitting on these high returns on a depreciated asset base is not what we look for. This is why, in our opinion, managing the balance between growth, profitability and returns to deliver strong and consistent economic value add should be critical to long-run success.

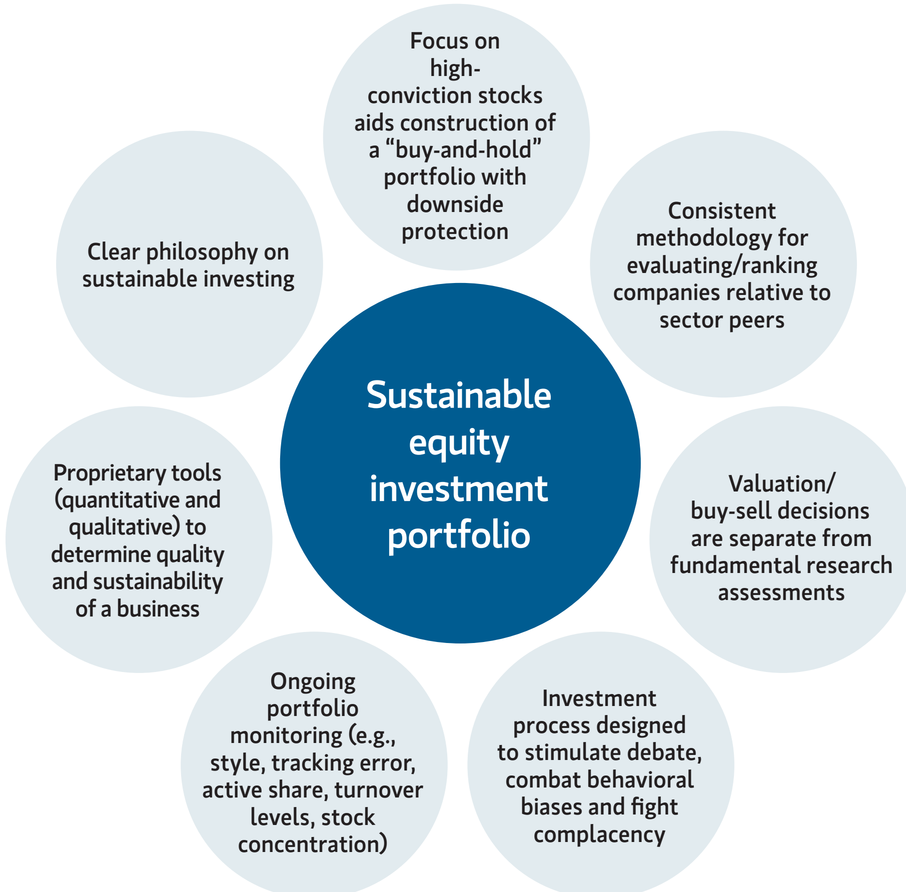
A sound intellectual framework – essential for creating a "sustainable" portfolio

So far, we have shown some of the key financial attributes that a durable and sustainable business requires to flourish. Successful long-term investing, however, requires more than this. It requires continuous good decision-making and a robust investment decision-making framework to facilitate this.

The rationale here is straightforward. A sound intellectual framework aids decisions that are underpinned by logic, facts, sound reasoning, patience and discipline. Equally important, it acts as a safeguard against decision-making driven by emotion and behavioral biases like herd mentality.

So, what does our intellectual framework for "sustainability" look like? *Display 3* shows this in a simplified form.

DISPLAY 3
Our intellectual framework for sustainable equity investing



A CLEAR PHILOSOPHY. The word sustainability has different connotations among investors. We believe that:

- The ability of a company to sustain financial success over the long run is key to sustainable share price outperformance.
- An investment approach that focuses on sustainable businesses is positioned to minimize risk and capitalize on the financial success of such businesses, which, we believe, compounds value over time.
- Companies increasingly need to consider their impacts on the world and financial analysts need to incorporate financially material ESG

factors into their overall company research. We believe the integration of ESG factors is consistent with an investment process focused on sustainable business models, compounding and downside protection.

- Our philosophy on sustainability involves proprietary research focused on identifying and researching those ESG factors that are financially material (relevant) to a particular company.

We use several proprietary tools, both qualitative and quantitative, to determine whether any given company meets our "sustainability" threshold. Companies that do meet our threshold typically exhibit the following qualities:

- Secular growth characteristics.
- Strong balance sheets.
- Astute and prudent capital allocation.
- High or improving returns on invested capital.
- Strong management teams.
- Sustainable financial returns.
- Competitive advantages.
- Accountable governance.
- Transparent operations.

STANDARDIZED FRAMEWORK TO EVALUATE/ COMPARE COMPANIES. Valuation and finance can be idiosyncratic for certain sectors and, thus, we have devised a common framework through which to understand the quality and sustainability of a business relative to a peer group. The framework *(Display 4)* does two things: (a) It encourages consistency in our fundamental assessments—covering all the key metrics we believe are critical to the long-term success and sustainability of a business—and (b) It helps us to plot where a company outperforms or underperforms its peers on each metric. The rankings apply to four key areas:

- The strength of the business model. This is a crucial point to understand because investing in companies with weak business models can often turn out to be poor investments. Most investors focus too much on short-term macro trends and attempt to predict—which is very difficult to do—how end-market dynamics will change.
- Market dynamics. This is about understanding the market in which the company operates. We believe you cannot understand a company's financial future unless you understand the market in which it operates.
- Capital allocation. Here, we want to understand whether the company is a good custodian of shareholder capital (i.e., does it make judicious decisions about where to allocate cash?).
- Financial returns. Managements and investors have become too focused on short-term earnings as a yardstick of success. We believe sustainable, premium returns are a key pillar of long-run outperformance.

This comparison-mapping framework has, in our view, a number of benefits.

- By systematically researching each topic in each section and plotting the results in a highly visual format, we get a clearer view on a company's growth, profitability and return profile. This, in turn, helps us determine which companies are good candidates for inclusion in a sustainable, wealth-creation portfolio.
- It facilitates the integration of financially relevant ESG considerations at the company level. Since "relevant" ESG factors differ from one company to the next and from one sector to the next, the appropriate way to incorporate ESG analysis is at the granular rather than macro level.
- It helps us to be consistent in our approach across companies. To quote a well-known chef: "Following the recipe is essential to making food of consistent quality over time."
- By employing a simple schematic across a wide range of factors (good to bad), it keeps us intellectually honest about what we know and what we do not.
- It helps mitigate a problem that besets some highly experienced investors—ego. We have all heard phrases like "I've seen this play out before," or heard queries swept aside with brusque comments such as "I've followed this industry for 15 years." That kind of thinking is exactly what we want to guard against.
- This framework does not try to look at valuation or influence the timing of trades. While timing plays a key role in how all active investors pick stocks (buying/selling/waiting), we believe it is helpful to view fundamental analysis as a separate activity from the decision to invest or not. To use an analogy of a horse race, we like to analyze each racehorse and the odds for its race (the fundamental assessment) prior to making a decision on a bet (timing and valuation assessment).
- It acts as a net to catch the mental flaws inherent in all of us; flaws of memory, attention and thoroughness.

Reducing manager errors, we believe, is an important part of successful long-term investing. We have become more convinced on this point after reading "The Checklist Manifesto: How To Get Things Right" by American surgeon Atul Gawande, which details his seminal work for the medical world and reveals the importance of checklists as effective aids to reduce unforced errors.

DISPLAY 4

Sustainability heatmap

Company XYZ as of December 31, 2023

STRENGTH OF BUSINESS MODEL

	AMONG WORST IN SECTOR		AVERAGE RELATIVE TO SECTOR		AMONG BEST IN SECTOR
Diversified revenue stream		X			
Minimal IP/technology			X		
Multiple avenues for growth				X	
High, recurring revenues (e.g., service and aftermarket)		X			
Human capital				X	
Pricing power			X		
Competitive advantage and market share winners				X	
Strong management team with deep bench			X		
Product not project				X	
Innovation – capable of penetrating customer wallets in clever ways				X	
Avoid capital-intensive business models			X		
Complexity/accounting			X		

MARKET DYNAMICS

	AMONG WORST IN SECTOR		AVERAGE RELATIVE TO SECTOR		AMONG BEST IN SECTOR
Avoid highly cyclical industries		X			
Social capital			X		
Market structure			X		
Speed of market (share) change/barriers to entry			X		
Customer concentration			X		
Attractive growth characteristics			X		
Structural price pressure in the marketplace?			X		
Regulation – good or bad?			X		

CAPITAL ALLOCATION

	AMONG WORST IN SECTOR		AVERAGE RELATIVE TO SECTOR		AMONG BEST IN SECTOR
Organic growth history and outlook				X	
Acquisition growth history and outlook				X	
Dividend and share buyback history				X	
R&D and technology strength				X	
Compounding ability of business model				X	
Remuneration policy				X	
Governance structure			X		

FINANCIAL RETURNS

	AMONG WORST IN SECTOR		AVERAGE RELATIVE TO SECTOR		AMONG BEST IN SECTOR
Resource efficiency and impact			X		
Cash flow conversion through cycle				X	
Track record on cost management				X	
Governance – circumstantial score			X		
Financial performance through cycle – return on capital/EVA			X		

Source: Eaton Vance Equity. For illustrative purposes only.

Conclusion

In this paper, we have done our best to illustrate the merits of a "sustainable" equity investing approach. We have explained our long-term investment philosophy and framework for assessing sustainable businesses.

We strive to remove as much human emotion and error from our investment process as possible and step away from the noise and confusion that is often prevalent in financial markets. We believe successful wealth creation over the long run requires a set of strong beliefs and a disciplined, repeatable approach. Our aim has been to build an investment philosophy, process and framework attuned to doing just this.

Risk Considerations

Investing involves risk including the risk of loss. Investments in **foreign instruments or currencies** can involve greater risk and volatility than U.S. investments because of adverse market, economic, political, regulatory, geopolitical or other conditions. In emerging countries, these risks may be more significant. **Smaller companies** are generally subject to greater price fluctuations, limited liquidity, higher transaction costs and higher investment risk than larger, established companies. The impact of the coronavirus on global markets could last for an extended period and could adversely affect the Strategy's performance.

Sources: Calvert, FactSet. All information as of 31 December 2023, unless otherwise specified.

Hypothetical returns have many inherent limitations. Unlike actual performance, it does not represent actual trading. Actual performance may differ substantially from the hypothetical performance presented. Other periods selected may have different results including losses.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.

For important information about the investment managers, please refer to Form ADV Part 2.

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Charts and graphs provided herein are for illustrative purposes only. **Past performance is no guarantee of future results.**

The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

Eaton Vance and Calvert are part of Morgan Stanley Investment Management. Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

DISTRIBUTION

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, and Atlanta Capital Management LLC.

This material has been issued by any one or more of the following entities:

EMEA

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM and Eaton Vance materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at 24-26 City Quay, Dublin 2, DO2 NY19, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Outside the US and EU, Eaton Vance materials are issued by Eaton Vance Management (International) Limited ("EVMI") 125 Old Broad Street, London, EC2N 1AR, UK, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

Italy: MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. The **Netherlands**: MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. **France**: MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain**: MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany**: MSIM FMIL Frankfurt Branch, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark**: MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

MIDDLE EAST

Dubai: MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158).

This document is distributed in the Dubai International Financial Centre by Morgan Stanley Investment Management Limited (Representative Office), an entity regulated by the Dubai Financial Services Authority ("DFSA"). It is intended for use by professional clients and market counterparties only. This document is not intended for distribution to retail clients, and retail clients should not act upon the information contained in this document.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser.

U.S.

NOT FDIC INSURED. OFFER NO BANK GUARANTEE. MAY LOSE VALUE. NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. NOT A DEPOSIT.

LATIN AMERICA (BRAZIL, CHILE COLOMBIA, MEXICO, PERU, AND URUGUAY)

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

ASIA PACIFIC

Hong Kong: This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore**: This material is disseminated by Morgan Stanley Investment Management Company and should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia**: This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offered in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

JAPAN

For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.

RO 4381625 Exp. 4/10/2026 LTR