

NEW RISK ALERT: (EV)

Eaton Vance Flags New Warning Ahead of Morgan Stanley Acquisition

Wealth manager warns activists could negatively impact the fees it earns from closed-end funds.

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This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Eaton Vance Hints Activist Investors May be Targeting Closed-End Funds

In what's likely to be its final 10-K as an independent company, Eaton Vance, which is being acquired by Morgan Stanley, is citing an important new risk. In its 2019 10-K, Eaton Vance acknowledged potential risks to its closed-end funds that could reduce fee revenue:

"While not subject to daily redemption, closed-end funds that we manage 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."

In its 2020 10-K, Eaton Vance adds language to this risk factor and hints that activist investors may be targeting its closed-end funds:

*"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.**"*

Eaton Vance Warns of New Cyber Attack Detection Risk

The recent SolarWinds cyber attack prompted us to flag new language Eaton Vance felt compelled to add to this year's annual report. In 2019, EV offered a boilerplate warning regarding cyber attack prevention:

"...and any failure by mobile or cloud technology service providers to adequately safeguard their systems and prevent cyber attacks could disrupt our operations and result in misappropriation, corruption or loss of confidential or propriety information."

In its 2020 10-K, the language Eaton Vance uses to detail this risk factor is much more specific than the prior year:

*"...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 propriety information."*

While the SolarWinds breach is top-of-mind, the new language may have been added because many of EV's employees are working from home and accessing systems remotely. Either way, the language change should be of interest to Morgan Stanley investors as they're acquiring EV's high-net-worth investors who are likely to be most impacted by a breach.