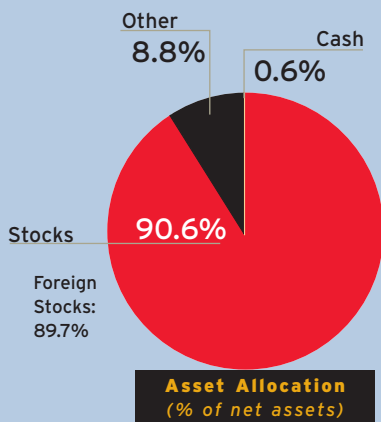




Cliff Quisenberry



Overweighting The Underdogs

Eaton Vance Tax-Managed Emerging Markets Fund dares to tread where other funds don't.

> By Marla Brill

With many emerging markets suddenly down from their all-time highs, investors need to look beyond familiar territory toward less traveled corners of the globe for promising growth opportunities, according to Cliff Quisenberry, manager of the Eaton Vance Tax-Managed Emerging Markets Fund. "It pays to be a contrarian after emerging markets have made a big move," he says. "If certain markets have had a strong run, redeploying assets to places where stocks have underperformed makes a lot of sense."

Like other emerging market fund managers, Quisenberry maintains a presence in the usual roster of more

and South Africa. But unlike most of his competitors, he also ventures into more exotic locales where the water and political climate is a bit iffier, such as Vietnam, Romania, Venezuela and Croatia. He emphasizes that investments in smaller foreign markets, which represent about 15% of assets, are a prudent move toward diversification rather than a daring romp into exotic territory in search of outsized returns.

"Korea, Taiwan, South Africa and Brazil make up over 50% of market-cap-weighted, emerging market indexes, so the influence of these countries on investment returns is enormous and there is high per-country risk," he says. "We want to spread out country weights more evenly. The portfolio structure underweights larger markets relative to the index, and overweights smaller ones where valuations are cheaper."

Valuations in smaller markets are often more favorable because most investors have yet to discover them. By contrast, the long, successful run of emerging market funds has attracted hoards of investors to markets once considered off the beaten path. According to Merrill Lynch, investors poured \$34 billion into emerging market funds during the first quarter of 2006, eclipsing the \$25 billion of inflows into the funds for all of 2005. The inflows followed three years of a rally in emerging market stocks that

Eaton Vance Tax-Managed Emerging Markets Fund

> AT-A-GLANCE <

TICKER:	EITEX			
ASSETS:	\$600 million			
PERFORMANCE:*	YTD	1 yr.	3 yr.	5 yr.
	9.30%	40.43%	39.66%	25.12%
TOP FIVE HOLDINGS:	Oil Co. Lukoil Sponsored ADR, Gazprom OAO, Cez A.S., America Movil S.A. de C.V., Cemex, S.A. de C.V., OTP Bank Rt.			
CONTACT INFO:	(800) 225-6265; www.eatonvance.com			

*As of 5/31/06

Source: Morningstar

"established" up-and-coming countries such as Brazil, Korea, Taiwan

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began in 2003. During the first four months of 2006 the average diversified emerging markets fund had a total return of 20%, according to Morningstar, after an increase of 31.6% in 2005.

The bounce-back followed a long period of underperformance following mid-'90s disasters such

The differences in the fund's makeup versus emerging markets indexes can be dramatic.

Sector Breakdown	
(% of stock portfolio)	
Information	
Hardware	4.12
Software	.58
Media	1.48
Telecommunications	13.90
Service	
Healthcare	3.09
Consumer Services	3.86
Business Services	5.49
Financial Services	20.69
Manufacturing	
Consumer Goods	12.91
Industrial Materials	18.55
Energy	10.79
Utilities	4.54

As of 12/31/05. Source: Morningstar

as the 1994 Mexican peso crisis, the collapse of Thailand's market in 1997 and Russia's default on its government debt in 1998. But by the end of the decade fiscal and monetary reforms were helping improve emerging market economies, while a drop in interest rates lowered the cost of borrowing. Interest from investors perked up even more as U.S. investors began looking overseas for better investment opportunities.

Quisenberry remains confident about the long-term prospects for emerging market countries, and says

their economic growth will likely outpace that of more developed, mature economies. And despite a multiyear run-up, he says, the markets are fairly valued by some measures. Recently, the Standard & Poor's IFC Investable Emerging Market Index had a price earnings ratio of 15.1. Over the ten years ending in December 2005, it averaged 16.7.

But he's concerned about the short-term impact on valuations if cash continues to flood these markets, and the possibility of a retrench-



Personal
Manager: Cliff Quisenberry
Born: Heidelberg, Germany, 1965
Education: Bachelor's degree in economics, Yale University
Professional Background: Securities analyst and portfolio manager, Fred Alger Management; vice-president and portfolio manager, Cutler & Co.; senior portfolio manager of international market strategies, Parametric.
Outside interests: Piloting, martial arts, playing bagpipes, curling.

ment after such a massive upward move. A rise in interest rates in heavily leveraged emerging market countries could also slow economic growth. "Long term, I'm not worried, but over the short term you never know," he says. "But I would have said the same thing two years ago, and

look what has happened since then."

A Systematic Approach

Regardless of whether the long run in emerging market stocks continues, Quisenberry will continue using a top-down strategy that focuses first on countries and sectors, and then fills in the bigger picture with a representative sampling of stocks. About 90% of the fund's value added relative to its cap-weighted index comes from country selection and weighting rather than stock picking prowess, he says.

Unlike most emerging market managers, who use a market-capitalization-weight strategy based on an index, Quisenberry uses a systematic investment process that divides the 39 countries and 914 stocks represented in the Fund's portfolio into four tiers containing equal country weights. More-developed markets such as Korea, Taiwan, Mexico, Russia, South Africa and China are in the first tier, each carrying 6.8% of the overall allocation. Tier-two countries are viewed as "mid-cap" emerging markets and are each allocated 3.4% of the portfolio. This tier includes countries such as Malaysia, Poland, Israel and Hungary. "Frontier countries," are divided into two tiers. The smallest, such as Nigeria and Vietnam, receive 0.84% weightings, and the larger ones, such as the Baltics and Morocco, receive 1.68% weightings.

The differences in the fund's makeup versus emerging markets indexes can be dramatic. While Korea represents about 20% of the S&P/IFC Investable Emerging Market Index, it accounts for only about 6.8% of fund assets. Taiwan represents about 15% of the index, but only has a 6.8% target weighting in the fund.

Smaller countries have outperformed larger ones over the last decade, he says. Over the ten years ending December 31, 2005, the smallest emerging market countries delivered an annual return of 19%, compared with a -5.2% drop for the largest countries. Because they remain large-

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Valuation Rates

Price/Prospective Earnings	11.6
Price/Book	1.9
Price/Sales	1.1
Price/Cash Flow	5.8
Dividend Yield	3.2%

Growth Rates %

Long-Term Earnings	15.6
Historical Earnings	14.5
Sales Growth	11.9
Cash-Flow Growth	16.9
Book-Value Growth	6.7

Source: Morningstar Inc. 12/31/05

Fees & Expenses

Expense Ratio	.95%
Deferred Load	2%
Minimum Investment	\$50,000

Source: Eaton Vance

ly undiscovered by investors around the world, he adds, smaller emerging markets have a lower correlation to each other than do larger ones, and to markets in the United States.

He cites Vietnam, where the fund has had a presence since 2001, as an example of “a great country that investors have ignored.” Originally, he invested there to broaden the fund’s exposure to the Asian markets. Since then, it has evolved into a country that should see economic growth in the 7% to 8% range this year, and will soon join the World Trade Organization.

Quisenberry acknowledges the risks of investing in frontier countries, including unpredictable political and economic activities, inconsistent levels of data and information disclosure, and the typically high cost of transactions and trading costs in these markets. But he counterbalances them by setting limits on individual stock purchases so that they do not exceed a days’ worth of trading activity, and spreading his bets over a wide range of countries and

securities. And eventually, he says, small markets grow into more established ones—a philosophy he had in mind when he first invested in China back in 1997, when that market’s correlation to the rest of the world was very low and investor interest was minimal.

If a country exceeds its target weight by 50%, the fund will rebalance and reallocate the extra capital to other countries in the portfolio. A country with a target weight of 3.4%, for example would be pared back to that level if its allocation rose to 5.1% of assets. He removes countries if they become part of a developed market index, if a major constituent becomes nationalized or if the long-term viability of the market becomes questionable.

Stocks are divided among the utility, consumer, financial, industrial and resource sectors. Within each country, Quisenberry overweights less dominant sectors of the economy and underweights those with a stronger presence. In Brazil, for example, the fund is currently underweight in basic materials and overweight in the consumer sector. “The idea is that emerging market economies will broaden and diversify, so we want to be in areas that will grow,” he says. At 21.6% of assets, financials represent the largest sector of the portfolio.

Because of its unique structure, fund performance often diverges from that of the benchmark. During the first quarter of this year, for example, the portfolio outperformed mainly because of underweight positions in Korea and Taiwan, which had low-single-digit returns and were among the worst-performing countries for the quarter. The damage from underweight positions in Brazil and South Africa, which saw strong returns, was offset by higher exposure to smaller emerging markets like Indonesia, Morocco, Vietnam and Croatia. Holdings in those markets saw returns in excess of 25% for the quarter. Longer term, the fund has outperformed the average fund in Morningstar’s diversified emerging



Market Capitalization As A % Of The Portfolio

Giant	21.10
Large	40.91
Medium	27.19
Small	8.16
Micro	2.64

Source: Morningstar Inc. 12/31/05

markets category since its inception in 1998, and has outperformed the MSCI Europe, Australasia and Far East (EAFE) Index in every year except 2000.

As its name suggests, Eaton Vance Tax Managed Emerging Markets Fund keeps an eye on tax efficiency. The fund’s turnover ratio was just 7% for the most recent fiscal year, much lower than that of the average emerging markets fund. “We’re not stock traders or country timers,” he says. “Except for some tax-loss harvesting, we like to buy and hold on.”

The volatility in emerging markets provides ample opportunity for loss harvesting in the portfolio. While the fund generates some income, it has had no short- or long-term capital gains distributions since 1998. Its 18.07% after-tax annualized return from its June 1998 inception until March 31, 2006, is just a shade lower than its pre-tax return of 18.81%.

Despite a strong run over the last several years, ample loss carry-forwards are available to offset gains in the future, he says. A low expense ratio of 0.95 %, and a \$50,000 investment minimum that bars most retail investors, complements the tax-sensitive strategy. ©

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EATON VANCE TAX-MANAGED EMERGING MARKETS FUND—I

JUNE 30, 2006

Overview

Investment Objective

The Fund seeks long-term, after-tax returns for its shareholders. The Fund normally invests at least 80% of its net assets in equity securities of companies located in emerging market countries, which are those considered to be developing. Emerging market countries include those in Asia, Latin America, the Middle East, Southern Europe, Africa and the region comprising the former Soviet Union.

Investment Style

Specialty: Emerging Markets

Highlights

- The Fund invests in companies with a broad range of market capitalizations, including smaller companies.
- The Portfolio Manager follows a disciplined and systematic investment process that emphasizes diversification and allocation among countries, industries and issuers.
- Within each country in which the Fund invests, the Portfolio Manager attempts to maintain exposure across five economic sectors: financial, industrial, consumer, utilities and natural resources.
- Investments in emerging market countries can be considered speculative and, therefore, may offer higher potential for gains and losses than investments in the developed markets.

Quotron Symbol - CUSIP Number

I Shares EITEX 277907606

Portfolio Facts

Performance Inception June 30, 1998
Total Assets \$557.39 million
Number of Issues 992
Turnover Ratio¹ 7%
Minimum Investment \$50,000

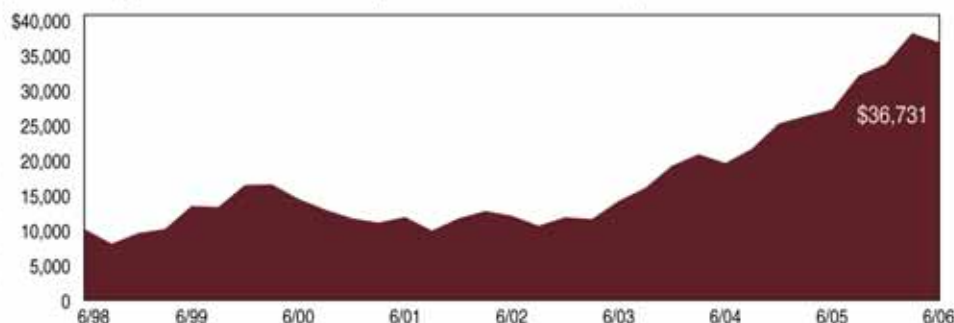
Performance

SEC Average Annual Total Returns I Shares at 6/30/06 (includes 2% fee reduction)

	Return Before Taxes	Return After Taxes on Distributions	Return After Taxes on Distributions and Sale of Fund Shares
1 Year	33.39%	32.94%	22.23%
3 Year	37.42	36.47	32.47
5 Year	25.42	24.61	22.18
Life*	17.58	16.87	15.35

*Performance inception 6/30/98.

Results of a Hypothetical \$50,000 Investment at NAV—I Shares (since inception 6/30/98 – 6/30/06) Chart uses closest month end after inception.



Calendar Year History

Total Returns	1999	2000	2001	2002	2003	2004	2005	6/06
T-M Emerging Markets Fund—I (at NAV)	72.61%	-29.14%	-0.11%	1.44%	62.74%	31.59%	33.83%	9.26%
T-M Emerging Markets Fund—I (with 2% fee)	69.19	-30.53	-2.08	-0.57	59.56	29.00	31.83	7.26
IFCI Index ²	67.11	-31.76	1.77	-3.94	57.16	28.11	35.19	9.12

I Share Data at Year-End

NAV	1999	2000	2001	2002	2003	2004	2005	6/06
NAV	\$16.10	\$11.11	\$10.89	\$10.93	\$17.12	\$22.11	\$28.93	\$31.61

Returns are historical and are calculated by determining the percentage change in net asset value with all distributions reinvested. Past performance (both before and after taxes) is no guarantee of future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Performance is for the stated time period only; due to market volatility, the Fund's current performance may be lower or higher than quoted. Fund performance during certain periods reflects the strong stock market performance and/or the strong performance of stocks held during those periods. This performance is not typical and may not be repeated. For the Fund's performance as of the most recent month end, please refer to www.eatonvance.com. Institutional shares are subject to a 2% redemption fee when exchanged or redeemed. After-tax returns are calculated using the highest historical individual federal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on a shareholder's tax situation and may differ from those shown. After-tax returns are not relevant to shareholders who hold shares in tax-deferred accounts or to shares held by non-taxable entities. Return After Taxes on Distributions may be the same as Return Before Taxes for the same period because no distributions were made during that period. Return After Taxes on Distributions and Sale of Fund Shares may be greater than or equal to Return After Taxes on Distributions for the same period because of losses realized on the sale of Fund shares. Before-tax and after-tax returns for other classes of shares offered by the Fund are different.

¹At 6/30/05 fiscal year-end for I Shares. ²Source: Bloomberg L.P.: The International Finance Corporation Investable Index (IFCI) is a broad-based index designed to measure the type of returns foreign investors might receive from investing in emerging markets. It is not possible to invest directly in an Index.

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EATON VANCE TAX-MANAGED EMERGING MARKETS FUND-I

JUNE 30, 2006

Portfolio Analysis

Country Allocation³

Asia/Pacific	36.84%
Europe	23.28
Latin America	21.22
Africa	12.19
Middle East	6.47

³By total net assets. Portfolio profile is subject to change.

Top 10 Holdings³

Gazprom OAO	
Cez A.S.	
America Movil S.A. de C.V.	
OTP Bank Rt.	
Tenaris SA	
Saudi Arabia Investment Fund Ltd.	
Vietnam Fund Class R Shares	
Samsung Electronics Co. Ltd.	
MOL Rt.	
Cemex S.A. de C.V.	
% of Portfolio Holdings	11.52%

Statistics - I Shares at 6/30/06^{4,5}

	3 Yr.	5 Yr.
Beta	1.35	1.02
Std. Deviation	15.90	17.68
Sharpe Ratio	1.96	1.26

⁴Source: ©2006 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. It is not possible to invest directly in an Index or Category.

⁵Beta is a measure of risk which shows a fund's volatility relative to the market. A fund with a beta of 1 performed exactly like the market index; a beta less than 1 means its performance was less volatile than the index, positive or negative. Standard Deviation is a measure of a security's volatility, or variability, in expected return. As such, it is a measure of risk; higher numbers indicate higher historical volatility. Sharpe Ratio is a measure of risk-adjusted performance. The higher the Sharpe Ratio, the better the Fund's historical risk-adjusted performance.

About Risk

Because securities markets in emerging market countries are substantially smaller, less liquid and more volatile than the major securities markets in the United States, Fund share values will be more volatile. Emerging market countries are either comparatively underdeveloped or in the process of becoming developed. Investment in emerging market countries typically involves greater price volatility than investments in securities of issuers in developed countries. Because the Fund invests predominantly in foreign securities, the value of Fund shares can also be adversely affected by changes in currency exchange rates and political and economic developments abroad. The securities of smaller companies are generally subject to greater price fluctuation and investment risk than securities of more established companies. The value of Fund shares is sensitive to stock market volatility. The Portfolio's ability to utilize various tax-management techniques may be affected by tax legislation and government legislations. The Fund may engage in derivative transactions that may expose the Fund to increased risk of principal loss. The Fund is intended for long-term investors and is not meant to be a complete investment program.

Portfolio Management

Cliff Quisenberry, CFA,

Vice President,

Parametric Portfolio Associates

- Director of Research and Product Development for the Firm
- Previously, Portfolio Manager Fred Alger Investments and Cutler Investments
- B.A. from Yale University 1987

Tax Management Strategies

- Purchase stocks primarily from a long-term perspective.
- Generally maintain low portfolio turnover of stocks with appreciated gains.
- Attempt to avoid net realized short-term gains.
- When appropriate, sell stocks trading below cost to realize losses.
- In selling appreciated stocks, select the most tax-favored share lots.
- Selectively use tax-advantaged hedging techniques as an alternative to taxable sales.

Before investing, prospective investors should consider carefully the Fund's investment objective, risks, charges, and expenses. The Fund's current prospectus contains this and other information about the Fund and is available through your financial advisor. Read the prospectus carefully before you invest or send money.