

BIG PICTURE

Artificial Intelligence: Ten Investment Truths



BIG PICTURE | 2Q 2026

Three years ago, Artificial Intelligence (AI) was a topic of mere curiosity. Today it is the subject of capital allocation. The challenge for investors is not only understanding that AI is consequential, but building frameworks precise enough to act on.

This Big Picture covers ten investment truths about AI that every asset owner must understand: from the infrastructure being built at extraordinary speed, to the agents beginning to act autonomously in the world, to the two competing architectures that will shape the geopolitical order for decades. The opportunity spans every layer of the stack and every asset class. So does the risk. Neither rewards a narrow framework.

AUTHOR



JITANIA KANDHARI
*Deputy CIO, Solutions
& Multi-Asset Group
Portfolio Manager,
Passport Equity
Head of Macro
& Thematic
Research, Emerging
Markets Equity*

These are ten investment truths for asset owners who need frameworks, not forecasts.

- 1. 4-WAY CONVERGENCE: ALGORITHMS, COMPUTE, TALENT & CAPITAL**
Compounding simultaneously with no historical precedent.
- 2. MOORE'S LAW NO MORE: PHYSICS BECOMES THE BOTTLENECK**
Every tech cycle has a bottleneck. With AI, it keeps moving.
- 3. THE TOKEN ECONOMY: WHEN COMPUTE BECOMES REVENUE**
Data centers are factories. Tokens are the product.
- 4. FROM REACTIVE TO AUTONOMOUS: THE AGENTIC TRANSITION**
AI is not waiting to be asked. It is already at work.
- 5. DATA, DOMAIN AND DISTRIBUTION: THE NEW SOFTWARE MOATS**
The moat is no longer the code, it is the three Ds.
- 6. YESTERDAY'S SCI-FI IS INCREASINGLY IN REACH**
AI stops analyzing the economy and starts operating it.
- 7. AI IS A FULL-STACK CAPITAL CYCLE**
This is a cross-asset, cross-sector capital cycle.
- 8. COMPETING COMPUTE: TWO ARCHITECTURES, ONE RACE**
AI is a matter of national security.
- 9. AI IS STRATEGIC INFRASTRUCTURE, BUT NOBODY IS IN CHARGE**
Capabilities are advancing. Governance is not.
- 10. FROM TELEGRAMS TO TOKENS: HISTORY AS A ROADMAP**
Tokens will come before the applications

1

Four-Way Convergence: Algorithms, Compute, Talent and Capital

COMPOUNDING SIMULTANEOUSLY WITH NO HISTORICAL PRECEDENT.

AI is transitioning from breakthrough technology to foundational infrastructure at a pace few anticipated. Google's 2017 Transformer breakthrough was the inflection point. What followed was a self-reinforcing flywheel across four forces scaling simultaneously: algorithms advancing through successive architectural breakthroughs, compute (i.e., resources for training and deploying AI) expanding at extraordinary speed, talent concentrating in a handful of institutions and capital deploying at a scale and velocity with no precedent in technology history. Approximately \$2.3 trillion has been committed in AI capex since the Transformer breakthrough, and the pace is accelerating, not plateauing.

The results are measurable. Consumption of tokens (basic units of texts that an AI model processes) grew more than 10x in 2025 alone. Models are becoming multi-modal across voice, image and video. The virtuous cycle remains intact: model improvements drive higher usage, higher usage drives higher investment and higher investment drives better models.

These four forces are converging toward Artificial General Intelligence, or AGI, meaning AI systems capable of performing any intellectual task a human can, across any domain, without task-specific retraining. Today's AI is extraordinary but narrow. It automates specific workflows within its training

domain. AGI removes that constraint entirely, autonomously identifying, designing and executing solutions to problems it has never encountered. Beyond AGI lies ASI (Artificial Superintelligence) systems that surpass the best human performance across all domains. Anthropic's CEO has framed what this looks like in practice: "a country of geniuses in a data center by end of 2027."

AI capabilities are currently doubling every four months, implying systems 250 times more powerful by 2028 than today. History offers no reliable template for compounding at this rate.

2

Moore's Law No More: Physics Becomes The Bottleneck

EVERY TECHNOLOGY CYCLE HAS A BOTTLENECK. IN THIS ONE, IT KEEPS MOVING.

Moore's Law, the 60-year principle that every two years compute got cheaper and more powerful, no longer holds. This is not a temporary slowdown. The physics have run out. That makes the shift structural, meaning the industry has to find entirely new ways to deliver performance.

The industry's response is multi-dimensional. At the chip level, chiplet architectures (multiple semiconductors placed side by side or stacked) are delivering performance improvements beyond the limits of traditional designs. At the system level, co-designed, multi-chip architectures are producing step-function gains in AI compute density. At the data center level, silicon photonics is emerging as the solution

to bandwidth constraints that copper interconnects cannot address at scale.

Components previously treated as commodity inputs are being repriced as strategic supply chain assets. Memory is currently undersupplied through end of 2026. AI and data center demand is expected to create 75–100 exabytes of incremental memory demand in 2027, doubling again in 2028. Hyperscaler buying behavior has changed structurally: Supply security now takes priority over price optimization and long-term supply agreements, which have historically been rare in memory markets, are being signed today.

The pattern is consistent. The bottleneck migrates up the supply chain: first chips, then power, then memory, then networking, then cooling. Each migration turns yesterday's commodity into tomorrow's scarce asset. The semiconductor story is no longer about who makes the best chip. It is about which layer of the supply chain becomes indispensable next. For investors, identifying that layer before consensus is the opportunity.

3

The Token Economy: When Compute Becomes Revenue

DATA CENTERS ARE FACTORIES. TOKENS ARE THE PRODUCT.

Three years ago, the world was asking what AI could do. Today, the more important question is what AI generates. The answer is tokens. Every query answered, every document drafted, every agent action executed generates tokens. They are measurable, priceable and scalable. Tokens are the output of a new kind of factory. Data

“The single most important technical metric in this new economy is tokens per watt, the measure of intelligence produced per unit of energy consumed.”

centers have crossed a threshold: They are no longer cost centers supporting a business. They are production facilities manufacturing intelligence and their output is priced at dollars per million tokens, much like electricity is priced per kilowatt hour.

The economics are already established. Compute capacity and revenue have become directly proportional in a way that has no precedent in the history of enterprise technology. Companies with three times more compute are generating three times more revenue. The single most important technical metric in this new economy is tokens per watt, the measure of intelligence produced per unit of energy consumed.

However, the demand trajectory is not linear. AI has evolved through three distinct phases, each representing a dramatic step-change in token consumption. Generative AI (using models to generate text, images, videos, audio and other forms of data) established the baseline. Reasoning AI, which introduced self-reflection and error correction, required approximately 1,000 times more compute. Agentic AI, systems that act rather than merely answer, using tools, executing tasks and running continuously, requires

approximately one million times more compute than the original conversational model. Each phase has expanded the market, not replaced it. More users, more agents per user, more complex workflows, more always-on systems mean the drivers of demand are multiplying together.

The \$2 trillion software industry was built on licensing seats. The next chapter will be built on consuming tokens.

4

From Reactive to Autonomous: The Agentic Transition

AI IS NOT WAITING TO BE ASKED. IT IS ALREADY AT WORK.

The first generation of AI was reactive. You typed in a question, AI answered. The interaction was transactional, the interface familiar with the human firmly in control. That model is giving way to something fundamentally different. AI is transitioning from a tool that only responds to a system that acts, autonomously executing tasks, managing workflows, operating continuously and transacting independently. The shift from retrieval to execution is not a simple product update. It is a revolutionary restructuring of how work gets done.

The early evidence can be seen in the numbers. Developer adoption has moved fastest. Some engineers are already managing four or more agents concurrently, delegating rather than coding, overseeing rather than executing. Agent traffic on major internet infrastructure networks went near-vertical in early 2026.

The organizational implications are as significant as the technical ones. Microsoft describes three distinct modes of AI interaction at work: simple chat, delegated tasks and full digital workers with their own identities, tools and workspaces. Although adoption is currently happening unevenly across firms and functions, over the next three years most individual contributors will involve managing groups of agents rather than executing tasks directly. Every employee will manage agents. The question organizations will face is not whether to adopt agentic AI, but how quickly they can redesign workflows around it rather than merely layer it on top of existing processes.

The most underappreciated dimension of the agentic transition is what happens when agents begin to transact, not just act. Agentic commerce, where AI agents actually execute purchases, settle payments and manage financial interactions autonomously, is already emerging as infrastructure. In fact, agent-to-agent transactions will naturally favor payment rails (payment platforms or networks) that require no human authorization, have no banking hours and settle in seconds. The architecture required is now being built across payment platforms, internet infrastructure and digital asset networks.

DISPLAY 1

Data, Domain and Distribution: The New Software Moats

D

DATA

The organizations that control their own unified data layer, enabling agents to reason across all systems at the same time, will compound their advantage.

D

DOMAIN

Compliance depth, implementation complexity and domain-specific logic built over decades. AI does not erode these moats. It deepens them.

D

DISTRIBUTION

A network built over two decades cannot be replicated. The moat was always what the software accumulated, not the software itself.

Source: MSIM, as of 5/31/2026. Provided for informational purposes based on the research, analysis, and opinions of the EME Team; not a recommendation to purchase or sell specific securities, or to adopt any particular investment strategy.

5

Data, Domain and Distribution: The New Software Moats

THE MOAT IS NO LONGER THE CODE, IT IS THE THREE D'S

While AI training is capital intensive and competitive, the next wave of value will come from AI usage: inference, orchestration, applications and workflows that offer more durable recurring revenue opportunities. New AI-native companies, leveraging massive compute with far fewer employees, are already demonstrating the structural cost and speed advantages over incumbents built for a different era.

Durable moats are moving away from code, toward workflow depth, proprietary data, domain expertise, network effects, compliance and distribution. Building software today costs a fraction of what it did. Features that once took months and hundreds of millions to build can be replicated

in days. But replicating a network built over two decades cannot. The moat was never only the software. It was always what the software accumulated over time. AI has not changed that logic. It has sharpened it.

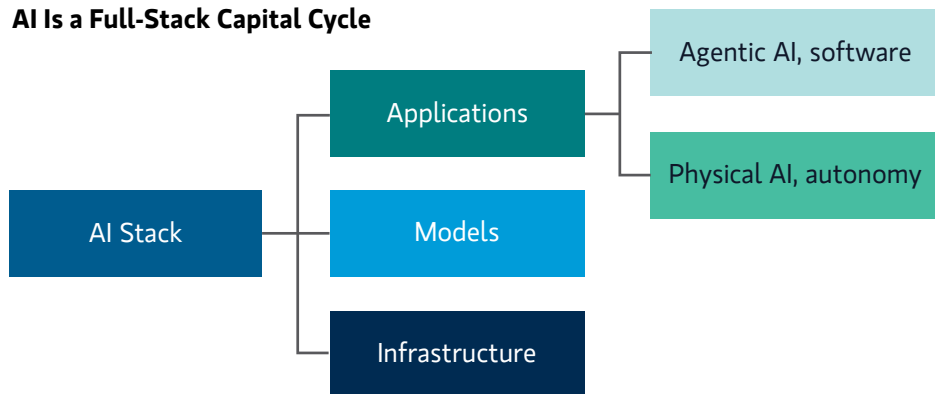
In vertical SaaS (Software as a Service) especially, the winners are likely to be firms with the three Ds: Data, Domain and Distribution (Display 1). Data is the most contested. Most enterprise data sits fragmented across dozens of systems including CRM (customer relationship management), ERP (enterprise resource planning), email and documents, each siloed behind its own database and charging export fees, each charging export fees that make unified access expensive and slow. An AI agent that cannot see the full picture produces weaker, more fragmented recommendations. The organizations that control their own unified data layer, enabling agents to reason across all systems at the same

time, will compound their advantage. The vendors who silo data behind export fees are not protecting a moat. They are likely accelerating their own displacement.

Domain and distribution are equally powerful but more durable. Systems embedded deeply in mission-critical workflows such as core banking, ERP, vertical SaaS running entire industries, carry moats built from years of implementation complexity, compliance requirements and domain-specific logic that AI deepens rather than erodes. Investors need to distinguish between companies enhanced by AI and those vulnerable to AI-native competition. The companies with the strongest advantage will have all three i.e., data, domain and distribution dominance.

DISPLAY 2

AI Is a Full-Stack Capital Cycle



Source: MSIM, as of 5/31/2026. Provided for informational purposes based on the research, analysis, and opinions of the EME Team; not a recommendation to purchase or sell specific securities, or to adopt any particular investment strategy.

6

Yesterday's Sci-Fi Is Increasingly in Reach

AI STOPS ANALYZING THE ECONOMY AND STARTS OPERATING IT.

Intelligence is moving from software into machines that move, build, transport and operate. If digital AI automated knowledge works, embodied AI will automate the physical economy. Autonomous mobility, robotics, industrial automation, drones and intelligent infrastructure are no longer experimental. They are being deployed commercially at scale. A new transportation layer is emerging between ground and traditional airspace. Software-defined vehicle revenue has doubled from \$500 million in 2021 to \$1 billion in 2024, targeting \$2 billion by 2027.¹ Government programs and defense contracts are early anchors of demand, significantly expanding the addressable opportunity.

Every autonomous system, regardless of end use, relies on the same stack: chips, compute, sensors, energy storage, electric propulsion and actuation. Value accrues disproportionately to whomever controls these choke points.

Humanoid robots today are no longer trained in the real world but in simulation environments that compress years of physical learning into days, the specific breakthrough that makes physical AI scalable rather than experimental. Physical AI could transform transportation and logistics, manufacturing, construction, agriculture, defense and healthcare. Core platforms, enabling infrastructure and the software layer, will underpin this ecosystem.

Autonomy is not a niche vertical. It is a horizontal layer spanning hardware, software, sensors and power systems. It marks the moment when AI stops analyzing the economy and starts operating it: on the ground, in the air and in space. It lowers the cost of labor, reshapes supply chains and

concentrates value at the core inputs. We will not need to predict which robot wins. We will need to allocate capital to the building blocks that every autonomous system will require.

7

AI Is a Full-Stack Capital Cycle

THIS IS NOT A SECTOR STORY. IT IS A CROSS-ASSET, CROSS-SECTOR CAPITAL CYCLE

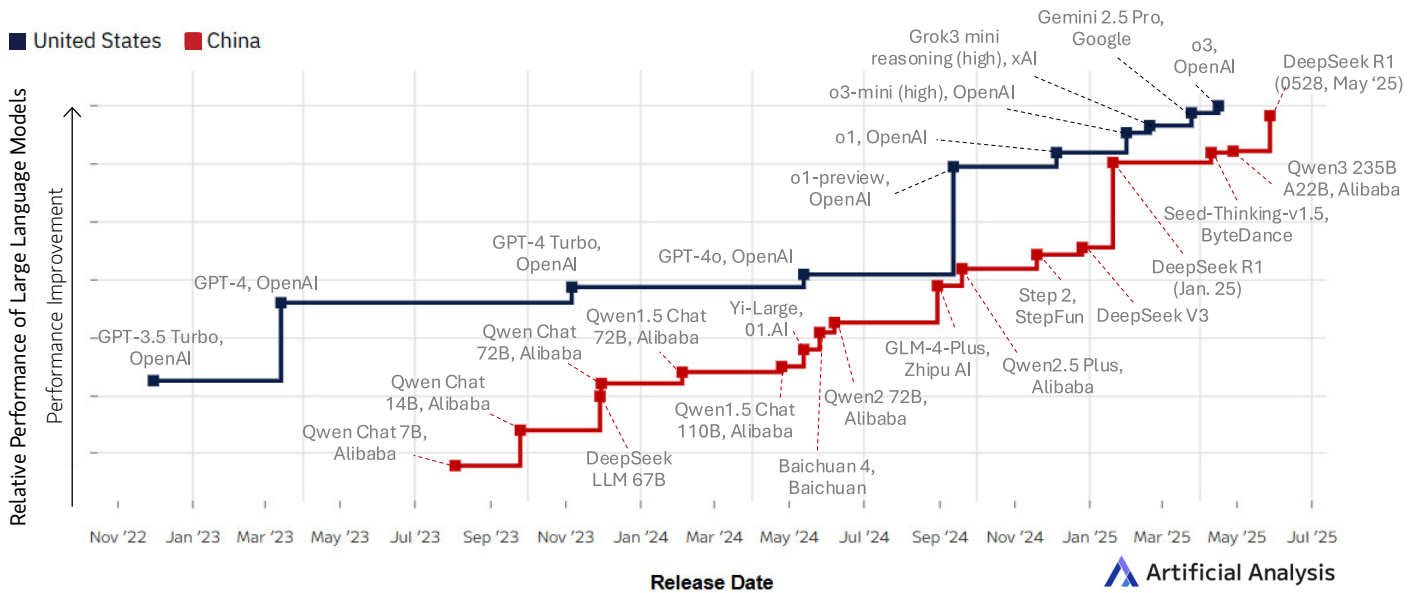
AI represents a full-stack capital cycle, and every layer is being priced in real time. It will create winners across semiconductors, foundry, memory, networking, power and cooling. At the model layer: training, inference, security and governance. At the application layer: software, agentic platforms, robotics, sensors, actuators and edge computing. The scarce asset shifts as bottlenecks move through the stack.

The stack has three distinct layers (Display 2). At the foundation sits the infrastructure layer that is capital intensive, supply constrained, and the layer on which every AI system ultimately depends. In the middle, the model layer encompasses training, inference and orchestration, where compute intensity is highest and competitive dynamics are most fluid. At the top, the application layer is splitting into two distinct categories: agentic AI, which acts autonomously within digital workflows, and autonomous AI, which operates in the physical world through robotics, sensors, edge computing and autonomous systems. For investors, the key questions are no longer simply about who has the best model. They are about who controls the

¹ KPMG - "Driving the Future of Mobility and Monetization" - February 2026. Forecasts and/or estimates are subject to change and may not actually come to pass.

DISPLAY 3

The U.S. and China: Frontier Language Model Intelligence Over Time



Source: Source: Stanford Institute for Human-Centered Artificial Intelligence: Artificial Analysis Intelligence Index Report. The Artificial Analysis Intelligence Index is a composite benchmark aggregating ten challenging evaluations to provide a holistic measure of AI capabilities across mathematics, science, coding, and reasoning.

infrastructure, who owns the data, who captures the emerging agent economy, who is embedded in mission-critical workflows, who commands the physical AI supply chain and who can translate AI capability into durable earnings power. Focus on where AI can unlock new demand, not just reduce costs. The biggest breakthroughs in AI are creating entirely new problems, then solving them before the market realizes they even exist.

For asset owners, this argues for a broader framework than simply buying hardware or software. AI is a cross-asset, cross-sector investment theme with implications for portfolio construction, manager selection and long-term capital allocation.

8

Competing Compute: Two Architectures, One Race

AI IS A MATTER OF NATIONAL SECURITY

Two distinct AI ecosystems are emerging. The U.S. model is a high-cost innovation engine, fueled by massive capital expenditure and access to cutting-edge chips. Its primary constraint is not semiconductors but power, the availability of electricity to run the infrastructure it is building. The Chinese model, constrained by export controls on advanced semiconductors, has evolved into a low-cost, efficiency-focused system, leveraging surplus power and open-source ecosystems, supported by deep partnerships across emerging market foundries and hardware sectors including servers,

memory and networking, designed to create a parallel AI stack. That supply chain is reinforced by the manufacturing scale and technological expertise of North Asian companies whose capabilities span the full hardware spectrum.

The performance gap is closing faster than expected (Display 3). Despite spending only 18% of what American hyperscalers have invested, Chinese models are now benchmarking broadly in line with U.S. peers, with the lag on reported performance narrowing to approximately one month. The lower cost base has allowed Chinese models to reduce token costs faster while offering comparable performance, driving market share gains as measured by cumulative downloads. China's hyper-digitized

economy is enabling faster adoption and application deployment. The competitive signal of 2026 is the shift by one major U.S. hyperscaler away from an open-source model strategy and toward a proprietary model, an implicit acknowledgment that open source cannot win the enterprise. If this triggers an industry-wide move toward closed models, value concentrates at frontier labs. If open source proves resilient, inference margin compression accelerates across the industry.

Harnessing AI is becoming a matter of national security. Military and commercial applications from advanced and autonomous weaponry to real-time battlefield awareness is gaining importance. Governments and defense establishments were passive observers of the first phase of AI development, and are now becoming active participants, and active customers, in the second. The race is no longer purely commercial. It is strategic. And strategic races, historically, run longer and attract more capital than commercial ones.

9

AI Is Strategic Infrastructure, but Nobody Is in Charge

CAPABILITIES ARE ADVANCING. GOVERNANCE IS NOT.

The policy vacuum around frontier AI is widening. Capabilities are advancing faster than public policy can respond, leaving private companies, not governments, to make important decisions with geopolitical consequences. Private companies are effectively setting access policy, deciding which countries and firms can

deploy models capable of identifying decades-old vulnerabilities in critical financial and physical infrastructure. This is private regulation of public infrastructure, without a government mandate. No elected body authorized this and no international framework governs it.

The U.S. is especially exposed. Its economy is highly digitally-connected while much of its critical infrastructure is privately owned. Many sectors still lack minimum cybersecurity requirements. Recent vulnerabilities across telecom, water and energy have already shown how costly this weakness can be. The adoption of AI is expanding the attack surface faster than defensive capabilities are being deployed. Half the enterprise market remains on legacy cybersecurity protection despite AI-driven threats operating at machine speed with no second chances. Security, safety and access controls have not caught up to agent capabilities.

The concerns extend well beyond cybersecurity. Lab leaders themselves are warning that the pace of development may need to slow. Yet policymakers are not responding with matching urgency. Advanced systems may become harder to control as they gain access to tools, external APIs (application programming interfaces) and workflows.

China's rapid progress to narrow the AI gap should be treated as a base-case assumption, not a distant risk. Washington cannot hold off regulation as though it has a commanding lead. The most important regulatory challenge is creating credible guardrails

fast enough to match the technology, while still competing aggressively. The U.S. needs international, national and social policies capable of matching the speed of technology.

10

From Telegrams to Tokens: History as a Roadmap

THE CABLES CAME BEFORE THE INTERNET. THE TOKENS WILL COME BEFORE THE APPLICATIONS

The current AI infrastructure buildout feels unprecedented. The capital commitments are extraordinary, the pace of change disorienting and the gap between investment and monetization uncomfortable for those who remember the last time the world collectively built this fast. But the pattern is not new. It has been repeated across every major communications infrastructure cycle for 170 years and each time the infrastructure that seemed ahead of its moment turned out to be the prerequisite for the adoption wave that followed.

The earliest example dates to the birth of subsea telegraphy in the mid-19th century. Sending a 30-word telegram from Australia to the United Kingdom once cost the equivalent of three weeks of average wages. Technological improvement, competition and consolidation drove prices from \$1.09 to \$0.30 per message between 1866 and 1900. Volume grew 11-fold, from 5.8 million to 63.2 million messages. Lower costs were more than offset by higher usage. Value tripled even as prices fell. By 1930, volume had grown a further three-fold to nearly 212

million messages. The shift was already visible: infrastructure buildout leads to price compression, price compression drives adoption, and adoption generates demand that the original builders never imagined.

The internet era repeated it with greater velocity. The 1996 Telecommunications Act opened the door to a fiber buildout that saw telecom operators multiply from 30 to 711 in four years. Annual fiber deployment quadrupled and drove long-distance call costs from \$0.75 to \$0.55 per minute, with some routes falling as low as \$0.10. What looked like overbuilding turned out to be the foundation of the consumer internet era. The applications that ultimately justified the infrastructure, including search, social media, streaming, ride-hailing, e-commerce, did not exist when the cables were being laid.

This pattern repeats with consistency: infrastructure buildout, price compression, demand acceleration and a new application layer that was unimaginable at the infrastructure investment stage. According to Sam Altman AI token costs fell 10x in 2025 alone. The applications that will consume the infrastructure being built today are still ahead of us. The companies that generate the greatest returns may not yet have been founded. What we can say with confidence is that this pattern has repeated reliably and AI is following it with one critical difference: velocity. The telegraph took decades to commoditize. The fiber buildout took a decade. AI's price compression took one year. The adoption inflection may not take ten years. It may take two.

“The applications that will consume the infrastructure being built today are still ahead of us. The companies that generate the greatest returns may not yet have been founded.”

What Could Go Wrong

The first risk is that the convergence could stall. Algorithms may be hitting diminishing returns. There is a credible body of research suggesting that scaling laws are flattening, meaning more compute no longer produces proportionally better models. The next breakthrough may not arrive on the current architectural path. For example, if AGI takes longer than expected, today's capital deployment could create stranded assets at extraordinary scale.

The second risk is the gap between capability and monetization.

Every metric of AI performance is accelerating. However, economy-wide productivity gains are not yet visible in the data. Most enterprises remain in an experimental phase, seeking clearer return on investment before committing to full workflow transformation. If that gap does not close and AI remains a cost center rather than a revenue generator for the broader economy, the capital cycle turns.

The third risk is reliability.

Agents that act rather than answer create a new category of concern. In conversational AI, a hallucination produces a wrong sentence. In agentic systems executing tasks across enterprise workflows, a model error could cause a wrong action, with real consequences. One high-profile failure at a systemically important institution could trigger regulatory intervention that slows enterprise adoption for years. The liability framework for agentic AI is entirely unresolved. It is unclear who will be responsible when an agent causes harm.

The final risk is concentration masquerading as diversification. The AI investment ecosystem appears broad: semiconductors, cloud, models, applications, physical systems. But the correlations are deep. Hyperscalers are investing in AI labs whose revenue flows back to their own cloud platforms. Advanced semiconductor manufacturing remains concentrated in a single geography. A geopolitical shock, a major capital expenditure cut, or a regulatory intervention could affect one layer. It may affect them simultaneously. The opportunity is large.



Conclusion

For asset owners, these ten investment truths argue for a broader framework than simply buying hardware or buying software. AI is a cross-asset, cross-sector investment theme with implications for portfolio construction, manager selection, long-term capital allocation and systemic risk management.

The investors best positioned for the decade ahead will treat AI not as a sector consideration, but as a full-stack capital cycle. That means building frameworks that span the infrastructure layer, models software platforms and the physical world where embodied intelligence is beginning to automate the real economy. The opportunity is not in any single layer. It is in understanding how all the layers connect.

A FINAL NOTE ON HUMILITY

Nobody has experience deploying AI at this scale. The future is being built in real time. The frameworks in this paper represent our best current thinking and will need to be revised as facts change. A hallmark of good AI investing is not certainty about outcomes, but the discipline to use frameworks rigorous enough to update as new evidence arrives.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by a portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Investing in companies in anticipation of a catalyst event, such as Artificial Intelligence (AI) adoption, carries the risk that such catalysts may not happen, or the market may react differently than expected. Companies focused on AI may have limited product lines, markets, or financial resources, and the management of such companies may be more dependent upon one or a few people. A Portfolio may be particularly impacted by events that adversely affect AI adoption, such as rapid changes in technology product cycles, product obsolescence, government regulation, and competition, and may fluctuate more than that of a portfolio that does not invest significantly in companies adopting AI. Investments in foreign markets entail special risks such as currency, political, economic, market and liquidity risks.

IMPORTANT DISCLOSURES

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 particular Strategy may include securities that may not necessarily track the performance of a particular 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 are provided for illustrative purposes only. **Past performance is no guarantee of future results**

This material is not a product of Morgan Stanley's Research Department and should not be regarded as a research material or a recommendation.

The Firm has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

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.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

Eaton Vance is 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: Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, Parametric SAS, 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 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 6166661 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.

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 International Financial Centre: This information does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase, any securities or investment products in the UAE (including the Dubai International Financial Centre and the Abu Dhabi Global Market) and accordingly should not be construed as such. Furthermore, this information is being made available on the basis that the recipient acknowledges and understands that the entities and securities to which it may relate have not been approved, licensed by or registered with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority, the Financial Services Regulatory Authority or any other relevant licensing authority or government agency in the UAE. The content of this report has not been approved by or filed with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority or the Financial Services Regulatory Authority.

Abu Dhabi Global Market ("ADGM"): This material is sent strictly within the context of, and constitutes, an Exempt Communication. This material relates to content which is not subject to any form of regulation or approval by the Financial Services Regulatory Authority of the Abu Dhabi Global Market (the "FSRA").

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 document has been issued by Morgan Stanley Asia Limited, CE No. AAD291, 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 document 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 document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This material is disseminated in Singapore by Morgan Stanley Investment Management Company, Registration No. 199002743C. This material 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 material 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. This material will not be lodged with the Australian Securities and Investments Commission.

Japan: For professional investors, this material is circulated or distributed solely for informational purposes. For non-professional investors, this material is provided in connection with Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This does not constitute a recommendation or solicitation of transactions nor offers any particular financial instruments. Under an IMA, with respect to the management of client assets, 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 to make such investment decisions. MSIMJ exercises these delegated

authorities accordingly, 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 underlying securities. Since these charges and expenses vary by contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read thoroughly the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is distributed in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, the Investment Management Association of Japan and the Type II Financial Instruments Firms Association.