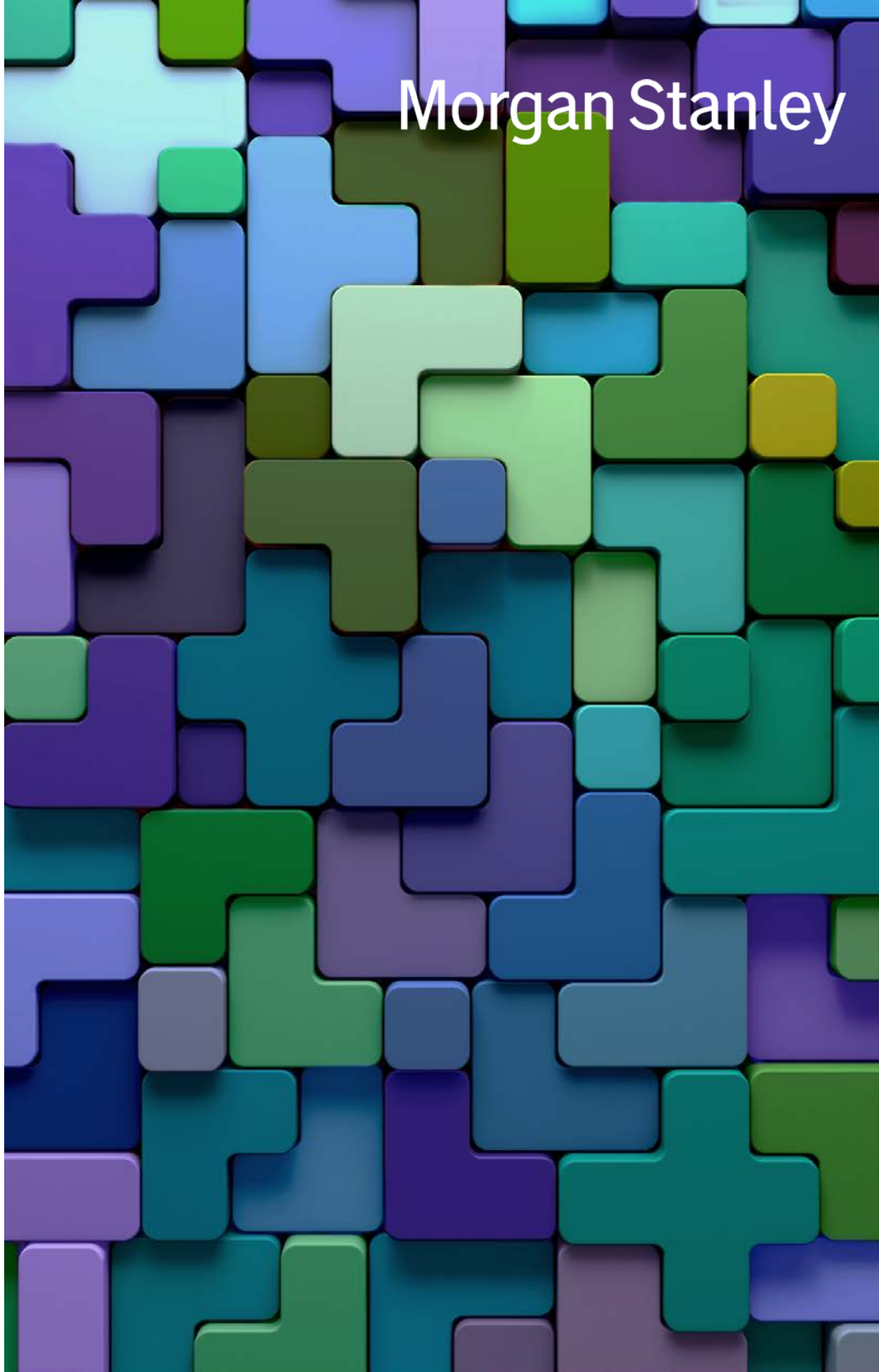
WEALTH MANAGEMENT

# Concentrated Stock Solutions by Morgan Stanley

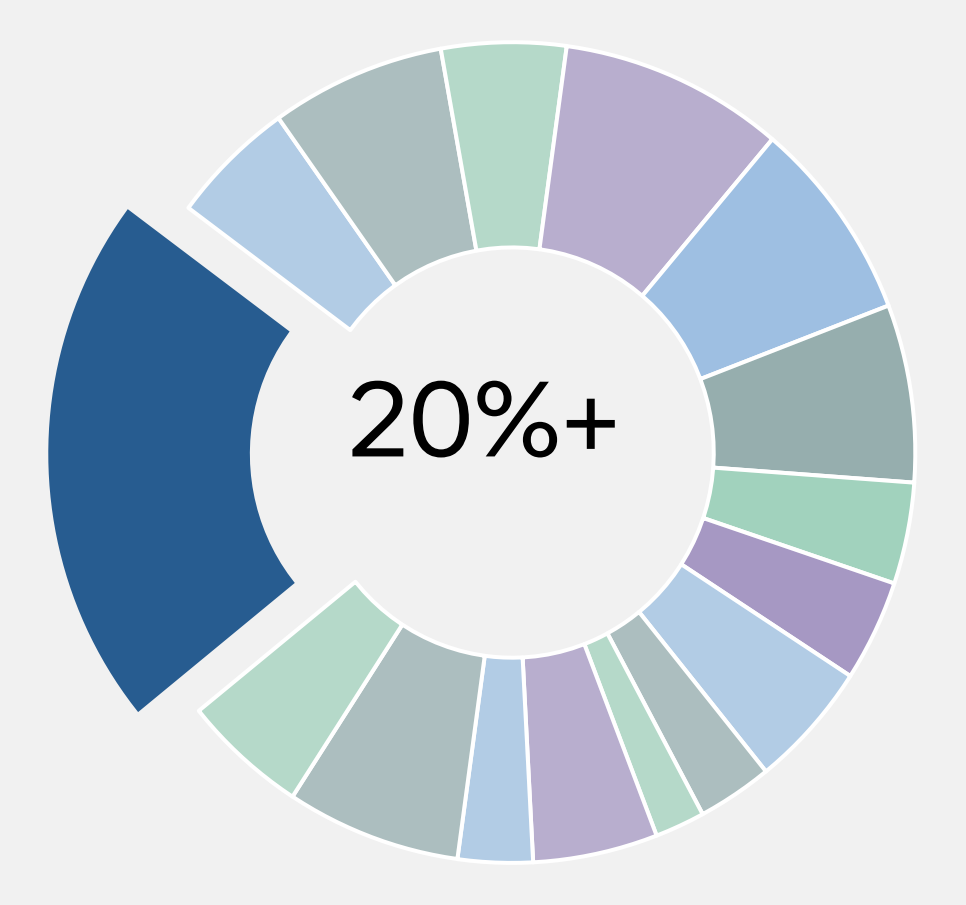
Diversification. Tax-Efficiency. Risk Management.



# Can There Be Too Much of a Good Thing?

## Past Successes May Introduce New Risks when a Single Stock Makes up a Disproportionate Amount of Your Wealth

### HOW MUCH IS TOO MUCH?




When a single stock represents a large percentage (20%+) of your overall portfolio value, it's considered a **concentrated position.**

This may not immediately appear to be **problematic**; after all, the build-up generally came from a rise in stock value.

Yet there is a **downside**: More volatility and increased susceptibility to market downturns. In other words, increased risk.

A decline in the value of the investments held in a concentrated portfolio of a limited number of securities would cause the portfolio's overall value to decline to a greater degree than that of a less concentrated portfolio.

# Concentrated Positions Start Positive

## Concentrated Stock Positions Were Rarely Acquired at the Current Size. They Almost Always Reflect Past Price Appreciation or Some Other Positive Event.

**COMMON SOURCES AND REASONS FOR CONCENTRATED STOCK POSITIONS INCLUDE:**

| Employment Achievements | Long-Term Investment Gains |
|---|---|
| Founders' stock / company ownership | Gifts and inheritances |
| Public company shares received in a merger or acquisition | Owning stock that has outperformed other holdings over time |
| Incentive compensation paid to company executives and other key employees | Distributions from successful venture and private equity investments |

Note there are meaningful limitations on transacting in securities or derivatives if you are considered an "affiliate" of the issuer of the securities, are otherwise in a role or relationship with the issuer in which you may have access to material non-public information, or be subject to policies relating to transactions in the relevant company's securities and derivatives. You should ask your company compliance about any regulatory or company policy limitations applicable to your transacting in the securities or derivatives, as such transactions may be prohibited or subject to conditions.

# Concentrated Stock Can Be a Mixed Blessing

## Celebrate the Success that Created your Concentrated Position. But be Aware that Over Time, It Can Grow Into A Portfolio Risk.

Concentrated stock's **outsized contribution to portfolio risk** may lead to greater portfolio volatility

**Unrealized capital gains,** from price appreciation may prevent you from rebalancing your portfolio to align with stated goals

You may find yourself **losing perspective,** overemphasizing positive aspects of the concentrated stock while discounting the negative

Unintended concentrated positions **can threaten your investment goals,** changing the risk profile of your portfolio

**After understanding the risks, would you consider a mix of strategies that would enable you to diversify your portfolio–in a tax smart way?**

# Concentrated Stock Can Increase Your Risk

## Three Uncomfortable Truths*

1 **Yesterday's winners rarely continue winning.**
60% of stocks that outperformed over a 5-year period became underperformers in the subsequent 5 years.

2 **Today's volatile markets are not an aberration.**
For stocks in the Russell 1000 Index since 2014, the average volatility has measured 37%, compared to just 15% for the index itself.

3 **Tomorrow's downturns inhibit future success.**
Nearly half of Russell 1000 stocks have suffered a catastrophic loss (50%+ decline) over the past decade, and many never fully recover.

* Source: Morgan Stanley Portfolio Risk Platform; Morgan Stanley Wealth Management Global Investment Office

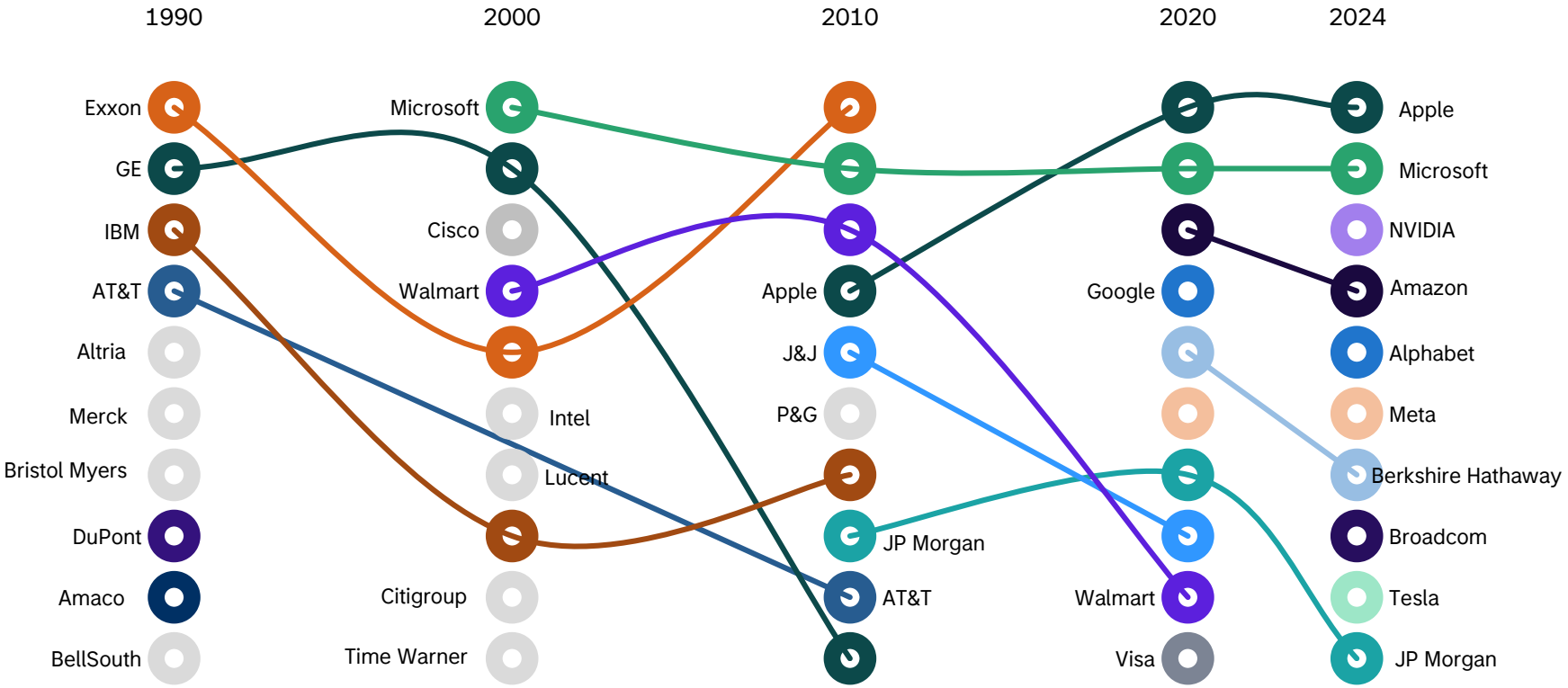
1. Ned Davis Research, Eaton Vance. Derived from a universe of 26,563 actively traded stocks listed on NYSE, Nasdaq, and NYSE American (formerly AMEX) since 12/31/1980; and based on relative total return versus the S&P 500 over the listed trading period of the stock through 12/31/2024. Returns are calculated daily, starting on 1/3/1972. Recovery is defined as recovery in price to high prior to maximum drawdown.

Russell 1000 Index measures the performance of the 1,000 largest companies based on total market capitalization.

# Deep Dive: Top 10 US Companies Shift Over Time

## Top US Companies Evolve Decade to Decade – Especially in the Current Digital Era

### EVOLUTION OF TOP 10 US COMPANIES (1990–2024)




**History shows that change is often the only constant. Diversifying is one of the best ways to manage the risk of changing economic, market, and global conditions.**

Source: Morgan Stanley Wealth Management GIO, Bloomberg, Dimensional Fund Advisors. As of December 31, 2024

# Reasons for Holding On To Concentrated Stock

## You May Have Both Financial and Behavioral Reasons Keeping you From Diversifying. Let's Look at Them One by One.

**The tax hit from selling would be too big**

| LEGITIMATE TAX CONCERNS |
| --- |
| Morgan Stanley has committed significant resources and investment toward tax-efficient strategies to help you diversify and manage potential tax impact. |

**I've held this stock for years. Why change now?**

| INERTIA HAS CONSEQUENCES |
| --- |
| An outsized portion of your portfolio can present outsized risk and volatility–even when resulting from positive outcomes |

**What if I sell and then the stock takes off?**

| FEAR OF MISSING OUT |
| --- |
| History shows most stocks experience major drawdowns. You can maintain some upside potential while balancing the risk with a multi-strategy approach that leverages our research |

**I know this company… it's poised for success**

| RISK OF OVERCONFIDENCE |
| --- |
| A more diversified approach still gives you exposure while protecting your overall financial plan. 60% of past winners become underperformers in the subsequent 5 years |

**The company was good to me when I worked there**

| LOYALTY HAS LIMITS |
| --- |
| We can design a strategy that maintains exposure while also protecting the financial future you've worked so hard to build |

**Managing your risk and staying on track with your financial plan may require you to diversify. The key is to do it in a smart way that offers answers to these concerns.**

# A Framework for Diversification and Tax Efficiency

## HOPES, a Framework of Interconnected Solutions for a Personal Diversification Plan that Considers Your Individual Goals, Situation and Tax Considerations.

### H

**HOLD**

Defer capital gains and maintain potential upside in the stock

### O

**OPTIONS STRATEGIES**

Mitigate downside risk, dampen volatility, generate potential income or monetize the position

### P

**PLANNED GIVING**

Combine charitable giving with tax optimization and generate potential income

### E

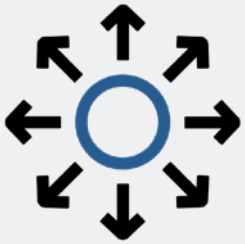
**EXCHANGE FUNDS**

Achieve diversification with tax deferral

### S

**SELL… IN A TAX SMART WAY**

Generate immediate liquidity



**PERSONAL. HOLISTIC. TAX-EFFICENT**

Our HOPES framework applies a multi-faceted approach to addressing the complex challenge of concentrated stock positions.

It integrates the range of available strategies to recommend an optimal plan that considers your individual situation and preferences—incorporating tax efficiency as appropriate.

This framework helps overcome the tendency to hold on to concentrated positions, mitigate risk and transform significant unrealized assets into a diversified portfolio.

# Morgan Stanley Has Innovative Solutions

Morgan Stanley has invested significant resources in enhancements to improve strategic diversification. We can help you not just diversify—but diversify well.

**Solutions for concentrated stock built on the size, scale & support of Morgan Stanley Wealth Management**

### Tax Efficient Solutions

Access our leading-edge tax management capabilities that allow greater customization and personalized tax mandates along with direct indexing solutions.[1]

### Equity Compensation Guidance

Varied types of equity awards have different rules and implications. With support from our Executive Planning & Equity Compensation Team, your Financial Advisor can help you optimize your benefits.[2]

### Exclusive Thought Leadership and Analytics

Direct access to intellectual capital and dedicated teams of strategists from our Global Investment Office–so you can make informed portfolio decisions.

### Sophisticated Risk Platform

Our state-of-the-art risk platform can identify, analyze and communicate existing concentration risk in client portfolios, including those held away.

### Innovative Alternatives Solutions

Gain access to exclusive tax-deferral strategies, including exchange funds, opportunity zones, and long/short private funds.

*For qualified investors.*

### Capital Markets Capabilities

Leverage institutional research and trading capabilities, including hedging and monetization, listed and bespoke options/derivatives, 10b5-1 for executives, block trading and more.

**Talk to your Morgan Stanley Financial Advisor to learn more about diversifying your concentrated positions**

1 Direct Indexing may adversely impact account performance. There is no guarantee that Direct indexing will produce the desired tax results.
2 Note there are meaningful limitations on transacting in securities or derivatives if considered an "affiliate" of the issuer of the securities, are otherwise in a role or relationship with the issuer in which you may have access to material non-public information or be subject to policies relating to transactions in the relevant company's securities and derivatives. You should ask your company compliance about any regulatory or company policy limitations applicable to your transacting in the securities or derivatives, as such transactions may be prohibited or subject to conditions.

# Deep Dive: Tax-Efficient and Options Strategies

Morgan Stanley delivers comprehensive tax management capabilities and options strategies that can help you navigate the complex tax implications of diversifying concentrated positions.

**We can help you diversify your concentrated portfolio in a tax-smart way**

Our integrated approach combines sophisticated technology, expert advisory services and access to industry-leading platforms to help you transition from concentration to diversification while preserving more of your wealth.

### Total Tax 365

Our year-round approach to tax-efficient investing can help manage the tax impact of transitioning concentrated positions through:

- Strategic tax-loss harvesting to offset gains from diversification
- Intelligent withdrawal sequencing across accounts

### Leading Edge Solutions

Access specialized solutions to help diversify:

- Direct indexing, including Parametric funds, the industry powerhouse and pioneer of these tax-efficient strategies
- Patented [1] fractional share trading capabilities, for reduced minimum investments.
- Tax-managed SMAs with daily loss-harvesting capabilities
- Donor Advised Funds to incorporate charitable giving into investment strategy

### Customized Transition Planning

Work with our concentrated equity specialists to develop multi-year diversification strategies that:

- Execute hedging, monetization, yield enhancement or exit strategies via exchange traded or bespoke options/derivatives
- Options overlay SMA for capped stock upside with reduced portfolio volatility

**Transform your concentrated position into a diversified portfolio while working toward mitigating taxes**

1 US Patent #12073466, relates to system and resources for fractional management of resources

# Deep Dive: Innovative Alternatives Solutions

Morgan Stanley's industry-leading alternatives platform offers sophisticated tax-deferral strategies and unique diversification opportunities beyond traditional markets.

**Access exclusive solutions through our industry-leading alternatives platform**

**For qualified investors,** our alternatives platform includes hundreds of funds, including Exchange Funds

### Exchange Funds

Diversify concentration and defer the recognition of taxes through our tax-efficient exchange funds*

- Swap concentrated shares for diversified fund units without triggering capital gains
- Access professionally managed portfolios of stocks that track broad market indices
- Daily redemption privileges

### Long/Short Funds

Long/short funds present an investment strategy that can offer potential tax-management advantages for investors.

- Long/short funds aim for returns in both rising and falling markets, potentially with tax loss harvesting capabilities
- They provide risk management and potential downside protection
- Market-neutral strategies can help to minimize overall market exposure
- There may be tax implications when using this strategy

### Qualified Opportunity Zones Funds

Defer taxes on previously earned capital gain

- Current deferral period is set to expire in Dec. 2026 (with taxes owed in April 2027)

If the applicable holding period is met, potential to step-up your cost basis or permanently exclude taxable income on Qualified Opportunity Zone Fund gains while investing in undercapitalized communities

- Provide potential long term, tax-free appreciation through investing in real estate markets

*Note that certain tax treatments may differ, and less tax benefits may be available, at the state level, depending on the state.*

**Use institutional-quality alternative investments to transform concentration risk into a sophisticated, diversified portfolio.**

* Subject to redemption fees in the initial 3 years of investment (waiver upon shareholder death and in certain other circumstances). Early redemption before 7 years also likely means a return of original shares, not a group of diversified stocks.

# Deep Dive: Thought Leadership and Analytics

## Morgan Stanley's Global Investment Office (GIO) combines 200+ analysts and strategists with proprietary analytical tools to deliver institutional quality insights.

**Access world-class research and analytics to guide your diversification strategy**

Our powerful combination of thought leadership, proprietary analytics and professional expertise provides clients with sophisticated risk assessment, opportunity insights and market intelligence to drive efficient diversification.

### Comprehensive Market Intelligence

Access the same research that guides our institutional clients through:

- Strategic asset allocation models updated regularly by our Global Investment Committee
- Tactical, strategic and secular investment horizons (from 12-18 months to 20+ years)
- Real-time market analysis across asset classes, sectors and geographies

### Proprietary Analytics

Evaluate your concentrated position with sophisticated tools including:

- **Equity Vulnerability Score**: Quantitative ranking of drawdown risk that combines multiple metrics across three categories
- **Tactical Equity Framework**: Eight-factor model for shorter-term performance insights
- Portfolio construction guidance integrating both tools for optimal diversification timing

### Actionable Investment Themes

Translate complex market dynamics into clear strategies through:

- Regular publications including research reports and market outlooks
- Concentrated position insights on sector risks and opportunities
- Access to thought leadership from our Global Investment Committee of nine industry leaders

**Transform your concentrated risk with the intellectual capital that powers Morgan Stanley's investment platform.**

Source: Global Investment Office. The Equity Vulnerability Score is a quantitative factor-based ranking of US stocks' relative vulnerability to future drawdowns. For more information on factor definitions, please ask your Financial Advisor for the GIC special report, "Tactical Equity Framework: Guiding Allocations Through Dynamic Factors" published on Jan. 14, 2025.

# Deep Dive: Equity Compensation Guidance

## Employee Stock and Options can Offer Opportunities, but also a Significant Level of Risk and Complexity – Including the Potential for a Concentrated Position

**Equity awards are governed by a complex set of rules that requires careful planning**

With support from our Executive Planning & Equity Compensation Team, your Financial Advisor can help you optimize your benefits

### Understanding Your Benefits

Various types of equity awards have different rules and implications

- Nonqualified stock options (NQSO)
- Qualified incentive stock options (ISO)
- Restricted stock units (RSU) and awards (RSA)
- Performance stock units (PSU) and awards (PSA)

### Tailoring a Plan

- The tax consequences of some equity awards are determined by how long you hold the shares after exercise or vest.
- Equity awards impact asset diversification across your entire portfolio.
- A portfolio of option grants may have greater volatility than an equivalent portfolio of stocks
- You may wish to reduce concentration risk by exercising option grants or selling the acquired stock

### Efficiency Through Technology

The Morgan Stanley Equity Award Analysis Tool empowers your Financial Advisor to help you understand the hypothetical tax, cash flow and risk implications of your equity awards

- By integrating Equity Award Analysis with your goals plan, you gain a comprehensive view of your total wealth

**Your Financial Advisor can help you understand, optimize and diversify equity compensation benefits**

Note there are meaningful limitations on transacting in securities or derivatives if you are considered an “affiliate” of the issuer of the securities, are otherwise in a role or relationship with the issuer in which you may have access to material non-public information, or be subject to policies relating to transactions in the relevant company’s securities and derivatives. You should ask your company compliance about any regulatory or company policy limitations applicable to your transacting in the securities or derivatives, as such transactions may be prohibited or subject to conditions.

# Deep Dive: Sophisticated Risk Platform

## Morgan Stanley's Portfolio Risk Platform empowers investors to see, understand, and analyze their financial risk, not just within a particular portfolio but across their entire financial picture

**An institutional approach to risk management**

Combining research, technology and innovation, Morgan Stanley's Portfolio Risk Platform provides a powerful guide to understanding risks.

### Comprehensive Risk Analysis

The Platform assesses more than 3,000 different risk factors of the underlying securities and funds to help you understand the drivers of risk

- Hypothetically illustrate how different market events might impact your current holdings and overall financial future
- Understand which market factors are driving your overall risk including concentrated equities

### See Your Exposures

Concentration can go beyond one stock

- Review your risk of overexposure across a single stock, asset classes, sectors or styles
- Stress test your portfolio by showing sensitivity to more than 70 market and historical scenarios including national and international stock market shocks to the S&P 500, Dow Jones, FTSE 100, DAX, Nikkei and more

### Understanding Your Risk Allocation

Asset allocation or sector weightings alone do not explain what drives your portfolio.

- Paired with Risk Allocation, our platform can help you better understand the drivers of risk and how they contribute, correlate, or detract risk and potential returns
- Understand your risk allotment and what securities / sectors may provide the greatest diversification benefits
- Review your allocation at the sector, style, rate, spread, or country level

**As a Morgan Stanley Client you have multiple views of your risk across tools including through Morgan Stanley Online**

# Deep Dive: Capital Markets Capabilities

## Capital Markets brings you access to the Firm's intellectual capital across equities, fixed income and structured investments through personalized industry-leading financial products, services and insights

**Personalized innovative, financial products, services and insights**

We deliver solutions across asset classes including ways to diversify a concentrated position

### Structured Solutions

A unique approach to identify investment ideas and sourcing implementation strategies

- Provide you with a wide variety of products tied to the performance of underlying assets from different asset classes
- Execute hedging, monetization, yield enhancement or exit strategies via exchange traded or Over-the-Counter (OTC) options/derivatives

### Hedging and Monetization Strategies

Strategies appealing to those who wish to maintain liquidity and manage risk without selling their stock outright

- Variable prepaid forwards: Investors receive cash upfront, equivalent to the current value of their stock, while agreeing to deliver a variable number of shares or cash in the future.
- This approach limits upside potential but provides a hedge against downside risk, as it limits possible losses if the stock's value decreases.

### Research Connectivity

Our Sector Specialists are subject matter experts with connectivity across Morgan Stanley Research, Institutional Sales and Trading

- Customized equity investment advice linked to your concentration diversification efforts
- High level market commentary helps your Financial Advisor understand where markets are headed and how to capture the best possible returns within your risk profile

**Your Financial Advisor has access to structured investments geared to help you diversify your concentrated holding**

# Investors Maintain Concentrated Stock Positions for Many Reasons

## Sometimes Those Reasons are Intentional, and Sometimes They Aren't

Proactively discussing your concentrated stock position can help ensure your portfolio is appropriately balanced so you manage risk, minimize taxes, and stay aligned with your long-term goals

**Talk to your Morgan Stanley Financial Advisor to learn more about diversifying your concentrated positions.**

## Options Disclosures and Considerations

If you are considering options as part of your investment plan, your Morgan Stanley Financial Advisor or Private Wealth Advisor is required to provide you with the “Characteristics and Risks of Standardized Options” booklet from the Options Clearing Corporation.

Options carry a high level of risk and are not appropriate for all investors.

Certain requirements must be met to trade options through Morgan Stanley. Investing involves risks, including loss of principal. Hedging and protective strategies generally involve additional costs and do not assure a profit or guarantee against loss. With long options, investors may lose 100% of funds invested. Covered calls provide cash flow, downside protection only to the extent of the premium received, and limit upside potential to the strike price plus premium received. Spread trading must be done in a margin account.

Before engaging in the purchase or sale of options, clients should understand the nature and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer of the underlying security/instrument. Options investing, like other forms of investing, involves tax considerations, transaction costs and margin requirements that can significantly affect clients’ potential profits and losses. The transaction costs of options investing consist primarily of commissions (which are imposed in opening, closing, exercise and assignment transactions) but may also include margin and interest costs in particular transactions. Transaction costs are especially significant in options strategies calling for multiple purchases and sales of options, such as multiple leg strategies, including spreads, straddles and collars. If a client is considering engaging in options trading, the Financial Advisor and Private Wealth Advisor are required to provide the client with the "Characteristics and Risks of Standardized Options" (ODD) booklet from the Options Clearing Corporation. Clients should not enter into options transactions until they have read and understood the Disclosure Document and discussed transaction costs with the Financial Advisor or Private Wealth Advisor. A copy of the ODD is also available online at: https://www.theocc.com/getmedia/a151a9ae-d784-4a15-bdeb-23a029f50b70/riskstoc.pdf .

The sale of the stock through an option assignment or the closing/expiration of an option position may produce a tax consequence. Certain in-the-money covered call writes are deemed ‘unqualified’ and carry certain tax consequences. Prior to entering into any proposed transaction, recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction. Morgan Stanley Smith Barney LLC and its affiliates do not provide tax or legal advice. To the extent that this material or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Supporting documentation for any claims (including any claims made on behalf of options programs or the options expertise of salespersons), comparisons, recommendations, statistics, or other technical data, will be supplied upon request.

There are many factors that an investor should be aware of when trading options including interest rates, volatility, stock splits, stock dividends, stock distributions, currency exchange rates, etc.

Annualized returns will not be calculated for holding periods less than 60 days.

If a secondary market in options becomes unavailable and prevents a closing transaction, the options writer's obligation would remain until expiration or assignment.

NOTE: This statement is not intended to enumerate all of the risks entailed in trading options. It is expected that you will read the booklet entitled “Characteristics and Risks of Standardized Options” (see https://www.theocc.com/getmedia/a151a9ae-d784-4a15-bdeb-23a029f50b70/riskstoc.pdf). Please direct your attention to Chapter X, “Principal Risks of Options Positions.”

**Options and Derivatives Risk**

Pre-Paid Variable Forwards (PPVFs) are customized OTC derivative transactions with a single broker-dealer counterparty. This exposes the investor to counterparty credit risk, meaning the investor’s ability to monetize or hedge the position depends on the creditworthiness and ongoing performance of the counterparty.

Additionally, entering into a PPVF may trigger constructive sale treatment under the Internal Revenue Code, potentially accelerating taxable capital gains. Investors should consult with qualified tax advisors prior to execution to fully understand these implications.

PPVFs also involve embedded costs, including financing charges and derivative pricing spreads, which may reduce the net benefit of the strategy. These costs can be difficult to assess in advance and may vary based on market conditions and the negotiated terms.

General Disclosures

Morgan Stanley Wealth Management ("MSWM", "Morgan Stanley" or "MSSB") is the trade name of Morgan Stanley Smith Barney LLC, a registered broker-dealer and investment adviser in the United States. This material is for educational purposes only and is not an offer or solicitation to buy, sell, or participate in any security or trading strategy. Past performance is not a guarantee of future results.

Morgan Stanley offers a range of brokerage and advisory services, which create different types of client relationships and obligations. Please consult with your Financial Advisor to understand these differences, or review our "**Understanding Your Brokerage and Investment Advisory Relationships**" brochure available at www.morganstanley.com/wealth-relationshipwithms/pdfs/understandingyourrelationship.pdf.

**Asset allocation, diversification, rebalancing and dollar cost averaging** do not guarantee a profit or protect against loss in declining markets. Past performance is no guarantee of future results and actual results may vary. Rebalancing strategies may also have tax consequences; investors should consult a qualified tax advisor before implementing such strategies.

**Conflicts of Interest:** As a diversified global financial services firm, Morgan Stanley engages in a broad range of activities, including financial advisory and investment management services; sponsoring and managing private investment funds; broker-dealer and principal securities transactions, commodities and foreign exchange transactions; and the publication of research, among other activities. In the ordinary course of its business, these activities may create situations where Morgan Stanley's interests may conflict with those of its clients, including the private investment funds it manages. Morgan Stanley can give no assurance that such conflicts of interest will be resolved in favor of its clients or any particular fund.

**Indices** are unmanaged and cannot be invested in directly. For index, indicator and survey definitions referenced in this report, please visit: www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

**For more information, please refer to additional General Disclosures here:** www.morganstanley.com/wealthbooks#general-disclosures.

Risks Associated With Investing

Investing in the markets entails the risk of market volatility. The value of all types of investments, **including stocks, mutual funds, exchange-traded funds ("ETFs"), closed-end funds, and unit investment trusts,** may increase or decrease over varying time periods. **Please carefully consider the investment objectives, risks, charges and expenses of investment fund(s) before investing. The fund prospectus contains this and other information about the fund(s). To obtain a prospectus, contact your financial advisor. Please read the prospectus carefully before investing.** There is no assurance that investment funds will achieve their investment objectives. Besides the general investment risk of holding securities that may decline in value and the possible loss of principal invested, **closed-end funds** may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance and potential leverage. To the extent the investments depicted herein represent **international securities**, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in emerging markets and frontier markets. Some funds also invest in foreign securities, which may involve currency risk. **Equity securities** may fluctuate in response to news on companies, industries, market conditions and general economic environment Companies paying dividends can reduce or cut payouts at any time. Small- and mid-capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of **small- and mid-capitalization** companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies. **Growth investing** does not guarantee a profit or eliminate risk. Growth stocks can trade at relatively high valuations which may increase risk compared with an investment in a company with more modest growth expectations. **Value investing** does not guarantee a profit or eliminate risk. Not all companies deemed value stocks are able to turn around their business or successfully execute corrective strategies, and their stock prices may not rise as initially expected.

The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or value at maturity. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer. Yields may change with economic conditions and should be considered alongside other factors when making investment decisions. Credit ratings are subject to change. **High yield bonds** carry additional risks, including increased risk of default and greater volatility due to lower credit quality of the issues. In the case of **municipal bonds**, income is generally exempt from federal income taxes, though some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. **Treasury Inflation Protection Securities (TIPS)** adjust coupon payments and underlying principal to compensate for inflation in line with the consumer price index (CPI). While the real rate of return is guaranteed, TIPS typically offer lower returns and may significantly underperform conventional U.S. Treasuries during periods of low inflation. There is no guarantee that investors will receive par if TIPS are sold prior to maturity. The **Ultrashort-term fixed income** asset class consists of high-quality securities with very short maturities and is therefore still subject to the risks associated with debt securities such as credit and interest rate risk.

**Money Market Funds:** You could lose money in money market funds. Although government money market funds (defined as investing 99.5% of total assets in cash and/or securities backed by the U.S. government) and retail funds (defined as money market funds open to natural person investors only) seek to preserve value at $1.00 per share, they cannot guarantee doing so. The price of other money market funds will fluctuate, and when you sell shares they may be worth more or less than originally paid. Money market funds may impose a fee upon sale or temporarily suspend sales if liquidity falls below required minimums. During suspensions, shares would not be available for purchases, withdrawals, check writing or ATM debits. A money market fund investment is not insured or guaranteed by the Federal Deposit Insurance Corporation or other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund and investors should not expect that the sponsor will provide financial support to the Fund at any time.

Investing in **Commodities:** Commodity prices may be affected by factors such as supply and demand, government policies, domestic or international political and economic events (including war or terrorism), changes in interest and exchange rates, trading activity in commodities and related contracts, pestilence, technological developments, weather, price volatility, and liquidity constraints. Physical precious metals are speculative, non-regulated products that may experience short- and long-term price volatility. Precious metals do not make interest or dividend payments and therefore may not be appropriate for investors who require current income. Precious metals must be stored, which may impose additional costs on investors.

**Master Limited Partnerships (MLPs):** Investments in MLPs are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity price fluctuations, supply

and demand imbalances, resource depletion and exploration risk. MLPs also carry interest rate risk and may underperform in rising interest rate environments. In addition, MLP funds accrue deferred income taxes on net operating gains and capital appreciation; as a result their after-tax performance could differ significantly from that of its underlying assets.

**Exchange Funds** are private placement vehicles that enable holders of concentrated single-stock positions to exchange those stocks for a diversified portfolio. Investors may benefit from greater diversification.

**Alternative investments** are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They are appropriate only for eligible, long-term investors willing to forgo liquidity and put capital at risk for an indefinite period. They are often illiquid, may employ leverage, short-selling, or other speculative practices that increase volatility and risk of loss, and may require large minimum investments and initial lock-ups. Alternative investments may also involve complex tax structures, tax-inefficient investing, and delays in distributing important tax documents. Clients should consult their own tax and legal advisors, as Morgan Stanley Wealth Management does not provide tax or legal advice. They also typically carry higher fees and expenses than traditional investments, which can reduce overall returns.

**Sector investments,** due to their narrow focus, tend to be more volatile than broadly diversified investments. **Non-diversified portfolios:** Portfolios that hold a concentrated number of securities may experience greater overall declines when those securities lose value compared with more diversified portfolios. Portfolios that invest heavily in one or a few industry sectors are more vulnerable to price fluctuations than those diversified across a wider range of sectors.

**Environmental, Social and Governance (ESG)** investments in a portfolio may experience performance that is lower or higher than a portfolio not employing such practices. Portfolios with ESG restrictions and strategies as well as ESG investments may not be able to take advantage of the same opportunities or market trends as portfolios where ESG criteria is not applied. There are inconsistent ESG definitions and criteria within the industry, as well as multiple ESG ratings providers that provide ESG ratings of the same subject companies and/or securities that vary among the providers. Certain issuers of investments may have inconsistent views concerning ESG criteria where the ESG claims made in offering documents or other literature may overstate ESG impact. ESG designations are as of the date of this material, and no assurance is provided that the underlying assets have maintained or will maintain any such designation or any stated ESG compliance. As a result, it is difficult to compare ESG investment products or to evaluate an ESG investment product in comparison to one that does not focus on ESG. Investors should also independently consider whether the ESG investment product meets their own ESG objectives or criteria. There is no assurance that an ESG investing strategy or techniques employed will be successful. Past performance is not a guarantee or a dependable measure of future results.

**Buying, selling, and transacting in Bitcoin, Ethereum or other digital assets ("Digital Assets"),** and related funds and products, is highly speculative and may result in a loss of the entire investment. Risks and considerations include but are not limited to: Digital Assets have only been in existence for a short period of time and historical trading prices for Digital Assets have been highly volatile. The price of Digital Assets could decline rapidly, and investors could lose their entire investment. Although any Digital Asset product and its service providers have in place significant safeguards against loss, theft, destruction and inaccessibility, there is nonetheless a risk that some or all of a product's Digital Asset could be permanently lost, stolen, destroyed or inaccessible by virtue of, among other things, the loss or theft of the "private keys" necessary to access a product's Digital Asset. Digital Assets may not have an established track record of credibility and trust. Further, any performance data relating to Digital Asset products may not be verifiable as pricing models are not uniform.

**For more information, please refer to additional Risks Associated With Investing here:** www.morganstanley.com/wealthbooks#risks-associated-with-investing.

Investment Advisory Programs

The sole purpose of this material is to inform, and it in no way is intended to be an offer or solicitation to purchase or sell any security, other investment or service, or to attract any funds or deposits. Investments mentioned may not be appropriate for all clients. MSWM offers investment program services through a variety of investment programs, which are opened pursuant to written client agreements. Each program offers investment managers, funds and features that are not available in other programs; conversely, some investment managers, funds or investment strategies may be available in more than one program. For more information, please see the Morgan Stanley Smith Barney LLC MSWM program disclosure brochure (the "Morgan Stanley ADV"). The Morgan Stanley ADV is available at www.morganstanley.com/ADV.

**The Morgan Stanley Pathway Funds, Firm Discretionary UMA Model Portfolios, and other asset allocation or any other model portfolios** that are discussed in this material are available only to investors participating in Morgan Stanley Consulting Group advisory programs. For additional information on the Morgan Stanley Consulting Group advisory programs, see the applicable ADV brochure, available at www.morganstanley.com/ADV or request from your Morgan Stanley Financial Advisor or Private Wealth Advisor. To learn more about the Morgan Stanley Pathway Funds, visit the Funds' website at www.morganstanley.com/wealth-investmentsolutions/cgcm.

Generally, investment advisory accounts are subject to an **annual asset-based fee** (the "Fee") which is payable monthly in advance (some account types may be billed differently). In general, the Fee covers Morgan Stanley investment advisory services, custody of securities with Morgan Stanley, trade execution with or through Morgan Stanley or its affiliates, as well as compensation to any Morgan Stanley Financial Advisor.

In addition, each account that is invested in a program that is eligible to purchase certain investment products, such as mutual funds, will also pay a **Platform Fee** (which is subject to a Platform Fee offset) as described in the Morgan Stanley ADV. Accounts invested in the Select UMA program may also pay a separate Sub-Manager fee, if applicable.

If your account is invested in mutual funds or exchange traded funds (collectively "funds"), you will pay the fees and expenses of any funds in which your account is invested. **Fees and expenses are charged directly to the pool of assets** the fund invests in and are reflected in each fund's share price. These fees and expenses are an additional cost to you and would not be included in the Fee amount in your account statements. The advisory program you choose is described in the Morgan Stanley ADV.

Morgan Stanley or Executing Sub-Managers, as applicable, in some of Morgan Stanley's SMA programs may effect transactions through broker-dealers other than Morgan Stanley or our affiliates. In such instances, you may be assessed additional costs by the other firm in addition to the Morgan Stanley and Sub-Manager fees. Those costs will be included in the net price of the security, not separately reported

on trade confirmations or account statements. Certain Sub-Managers have historically directed most, if not all, of their trades to outside firms. Information provided by Sub-Managers concerning trade execution away from Morgan Stanley is summarized at: www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf. For more information on trading and costs, please refer to the **Morgan Stanley ADV** or contact your Financial Advisor / Private Wealth Advisor.

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Morgan Stanley charges each fund family we offer a **mutual fund support fee**, also called a "revenue-sharing payment," on client account holdings in fund families according to a tiered rate that increases along with the management fee of the fund so that lower management fee funds pay lower rates than those with higher management fees.

**For more information, please refer to additional Investment Advisory Programs disclosures here:** www.morganstanley.com/wealthbooks#investment-advisory-programs.

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**Residential mortgage loans and home equity lines of credit** are offered by MSPBNA, Member FDIC an Equal Housing Lender. Nationwide Mortgage Licensing System Unique Identifier #663185. **The proceeds from a residential mortgage loan (including draws and advances from a home equity line of credit) are not permitted to be used to purchase, trade, or carry eligible margin stock; repay margin debt that was used to purchase, trade, or carry margin stock; or to make payments on any amounts owed under the note, loan agreement, or loan security agreement; and cannot be deposited into a MSSB or other brokerage account.** The pledged-asset feature allows eligible securities to be used as a substitute for a cash down payment. The pledged-asset feature allows eligible securities to be used as an alternative to a cash down payment. Clients must maintain collateral levels and may be subject to liquidation if requirements are not met. Interest-only and adjustable-rate mortgages (ARMs) carry specific risks, including payment increases and higher total interest costs. ARMs are based on the SOFR 30-Day Average. Relationship-based pricing is available based on eligible household assets held at the Firm.

**Cards and Cash Management:** Debit Cards offered through the Firm are issued by MSPBNA under license from Mastercard. American Express Cards offered through the Firm include the Platinum Card®, Blue Cash Preferred®, and the Morgan Stanley Credit Card. Eligibility requires an "Eligible Account" at the Firm. Cards are issued by American Express National Bank. Terms, conditions, and restrictions apply. The Greenlight App and Debit Card is provided by Greenlight Financial Technologies, not the Firm or any of its affiliates. The Morgan Stanley CashPlus is a brokerage account offered through MSSB. Conditions and restrictions apply. For more information, see the CashPlus Disclosure Statement.

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