Topics in Wealth Strategies:

Lending Toolkit

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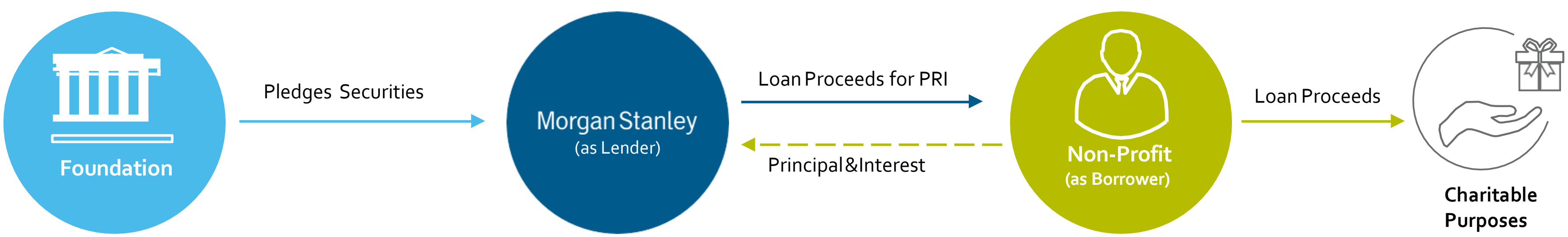
Program Related Investments (PRIs) with a Third Party Pledge

A Private non-operating Foundation is generally required to make **"qualifying distributions"** each year in the form of grants to other charitable organizations or amounts expended for qualifying charitable purposes of at least **5%** of the average fair market value of its includible assets for the preceding year.[1]

- **A third party pledge, which is when an individual or entity pledging securities as collateral for a loan is someone other than the borrower, may be considered to be a PRI and may count as a qualifying distribution[2]**
- In this scenario, the foundation acts as a qualified third party pledgor by pledging eligible securities as collateral to secure a loan on behalf of a charitable organization
- This strategy may allow you to **maintain your existing investment strategy** without having to liquidate securities for grants or other distributions
  - The recipient charitable organization **receives necessary funds** it may not be able to receive through a commercial lender or with less competitive terms to support its charitable purpose



Borrowing against securities may not be appropriate for everyone. You should be aware that there are risks associated with a securities based loan, including possible maintenance calls on short notice, and that market conditions can magnify any potential for loss. For details please see the important disclosures at the end of the document. The strategies discussed in this material are meant for clients with a specific need and may not be appropriate for all clients. No legal, tax or other advice is being offered herein.

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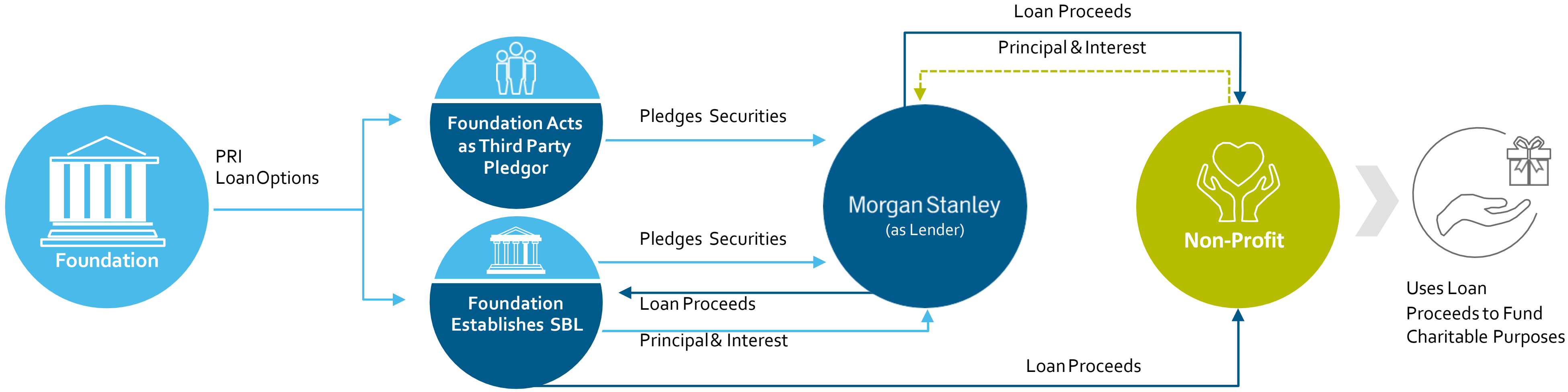
1. If this requirement is not met, the Private Foundation may be subject to an excise tax on certain undistributed income. For more information, see https://www.irs.gov/charities-non-profits/private-foundations/taxes-on-failure-to-distribute-income-private-foundations.
2. https://www.irs.gov/charities-non-profits/private-foundations/program-related-investments
3. A loan guarantee does not automatically count as a qualifying distribution.

Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

Funding Program Related Investments

A Private non-operating Foundation is generally required to make **"qualifying distributions"** each year in the form of grants to other charitable organizations or amounts expended for qualifying charitable purposes of at least **5%** of the average fair market value of its includible assets for the preceding year[1]

- Program Related Investments (PRIs) may count towards your distribution requirement and include financing methods such as loans, loan guarantees, linked deposits, and equity investments made with the primary purpose of accomplishing the foundation's exempt purposes[2]
- **Have you considered using securities based lending (SBL) to fund PRIs?** You can help **provide funding to charitable organizations** which may otherwise not qualify for a loan or receive less competitive loan terms by:
  - Pledging your eligible securities to establish a loan and provide the loan proceeds to the charitable organization; or
  - Acting as a qualified third party pledgor by pledging eligible securities to collateralize a loan on behalf of the charitable organization[2]
- Potential benefits include **maintaining your existing investment strategy** without having to liquidate securities while also being able to **recycle philanthropic capital** through repayment of the loan and/or return on equity[3]



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1. If this requirement, IRC section 4942, is not met, the Private Foundation may be subject to an excise tax on certain undistributed income. For more information, see https://www.irs.gov/charities-non-profits/private-foundations/taxes-on-failure-to-distribute-income-private-foundations.
2. Under certain circumstances a pledge may count as a qualifying distribution. For more information, see https://www.irs.gov/charities-non-profits/private-foundations/program-related-investments.
3. A loan guaranteed does not automatically count as a qualifying distribution.

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Using a Securities Based Loan (SBL) for Taxes: Preservation, Modulation, and Smoothing

How you pay taxes is an important strategic consideration, and is often directly related to your personal investment strategy. If you're wondering if you should consider borrowing to pay your taxes, the answer may fall into one or more of the Preservation, Modulation, or Cash Flow Smoothing strategies.

PRESERVATION

If you qualify for an SBL, and earn more on your assets than what you would pay in interest on that SBL, you are engaged in a Preservation Strategy. If successful, this approach may enable you to preserve your investment strategy and a portion of the income that may have been otherwise surrendered by selling assets – however, borrowing too aggressively may result in a maintenance call.

MODULATION

Using SBL proceeds to pay taxes, or a portion of a tax bill, may allow you to modulate the process of selling your taxable securities, or forestall the sale of assets entirely.

CASH FLOW SMOOTHING

Tax payments are a liability due in total when presented. Cash Flow Smoothing is the process of refinancing the liability into a structure whereby the balance can be paid over time with the potential for minimal impact to the asset side of the balance sheet.

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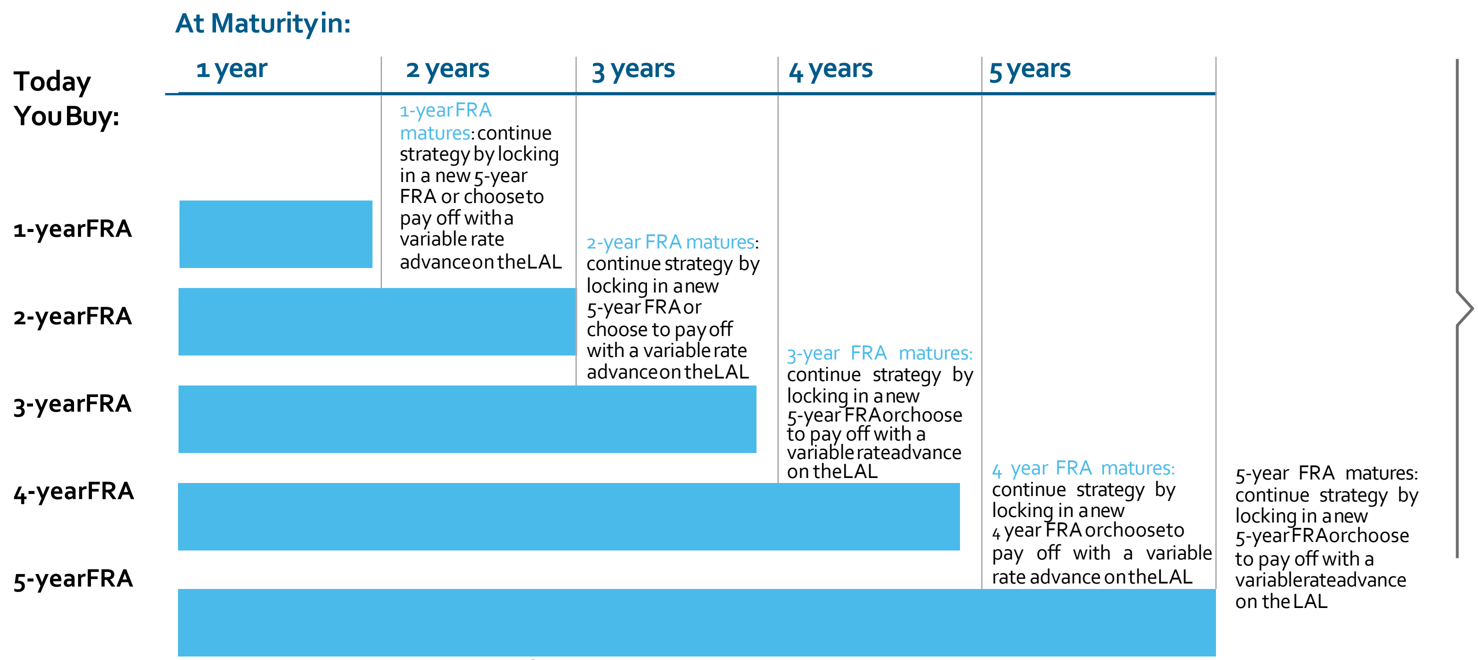
Laddering Your Liquidity Access Line (LAL)

Do you want to raise funds for upcoming expenses, but also want to manage interest rate risk connected with long-term debt?

- **Fixed rate advances (FRAs) on your LAL** can be an effective way to **manage interest rate risk** while providing **predictability of future interest rate payments**
- **Did you know?** If you qualify to ladder your LAL via **multiple FRAs** with varying maturity dates, you may create a liability structure with known interest payments while also:
  - Maintaining a higher degree of **flexibility** to periodically pay down the debt, continue the strategy or explore other financing options
  - **Lengthening the average duration** and interest rate exposure on the debt
  - Allowing you to **match,** or customize, the potentially variable **payout dates** of your capital expenditure with your loan repayments

The chart below shows a hypothetical example of a 5-year fixed rate LAL laddering strategy and is for illustrative purposes only. It assumes an initial purchase of 1-year, 2-year, 3-year, 4-year and 5-year FRAs.



- When **each FRA matures,** You may:
  - lock in another FRA;
  - pay off the debt; or
  - roll the balance onto your variable rate advance
- To continue the strategy, lock in a new 5-year FRA every time an FRA matures

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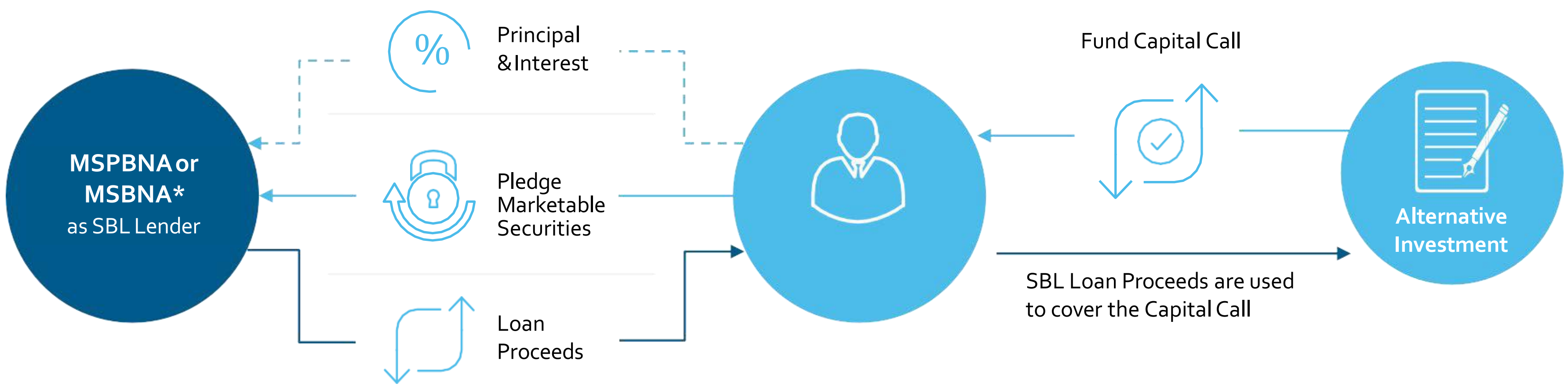
A prepayment fee will apply if the client pay off any portion of the principal of a fixed rate advance prior to the payment date, including if the loan is demanded.

Liquidity Access Line (LAL) to Fund Alternative Investments

Need to raise funds for capital calls but do not want to liquidate securities or use cash reserves?

- If you qualify, you may be able to **pledge your eligible marketable securities** as **collateral for a securities based loan (SBL)** to fund certain eligible **Alternative Investments**. This strategy may allow you to:
  - Potentially **keep your investment strategy intact** without having to liquidate existing assets
  - Help manage potential **liquidity and interest rate risk** associated with Alternative Investments
  - Retain **cash flow yield** from your fully invested portfolio of marketable securities
  - Working with a qualified independent tax advisor, potentially **deduct SBL interest** from your investment income
- It's important to know that (1) your **Alternative Investments are not typically eligible collateral** to support your SBL and (2) you may not be able to use LAL proceeds to invest in certain Alternative Investments due to regulatory limitations and (3) you may not fund capital calls in advisory accounts with LAL proceeds.



* Morgan Stanley Private Bank, National Association or Morgan Stanley Bank, N.A.

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Liquidity Access Line & Standby Letters of Credit

- **A Standby Letter of Credit (SBLOC) is a guarantee of payment issued by a bank, for an issuance fee, on behalf of the applicant to a third party, the Beneficiary**
- Some of the more common reasons clients utilize SBLOCs are to support
  - Lease or purchase agreements
  - Construction developments
  - Collateral for insurance policies
  - Security deposits
  - Litigation
- **SBLOCs are established through the Liquidity Access Line ("LAL")** – Once you apply, are approved for, and establish an LAL, you have the ability to request an SBLOC through a separate application process

1. Morgan Stanley Private Bank, National Association (MSPBNA) or Morgan Stanley Bank, N.A. (MSBNA) as SBL lender.

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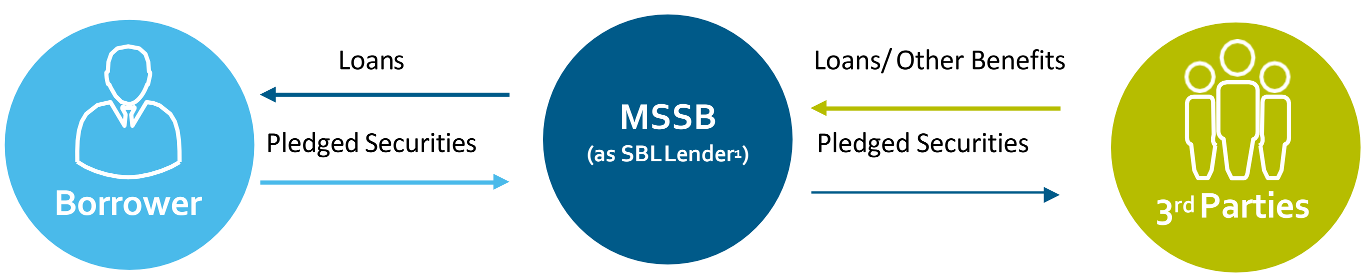
Rehypothecation 101

Rehypothecation refers to the process of **re-using securities that have been pledged (i.e. "hypothecated")** to a lender as collateral for loans by in turn pledging (i.e. "rehypothecating") them to **3rd parties** in support of the lender's business.

- This industry-wide practice helps **create liquidity in financial markets**, indirectly **lowering clients' financing costs**.
- The amount that may be rehypothecated **cannot exceed 140%** of **drawn loan balances**
  - As an example, if a client qualifies for a $200k loan and has an outstanding margin loan balance of $100k, the maximum amount that may be rehypothecated is $140k
- In addition, Morgan Stanley can only rehypothecate collateral if
  - Collateral is used to support **broker dealer loan products** (e.g. margin); and
  - The Firm adheres to **strict regulatory standards** regarding safekeeping and segregation of client assets.
- Securities pledged as collateral for loans provided by Morgan Stanley Private Bank, National Association or Morgan Stanley Bank, N.A. cannot be rehypothecated because the collateral is held by the banks' affiliated broker dealer and not the banks themselves.



1. Morgan Stanley Smith Barney LLC as lender

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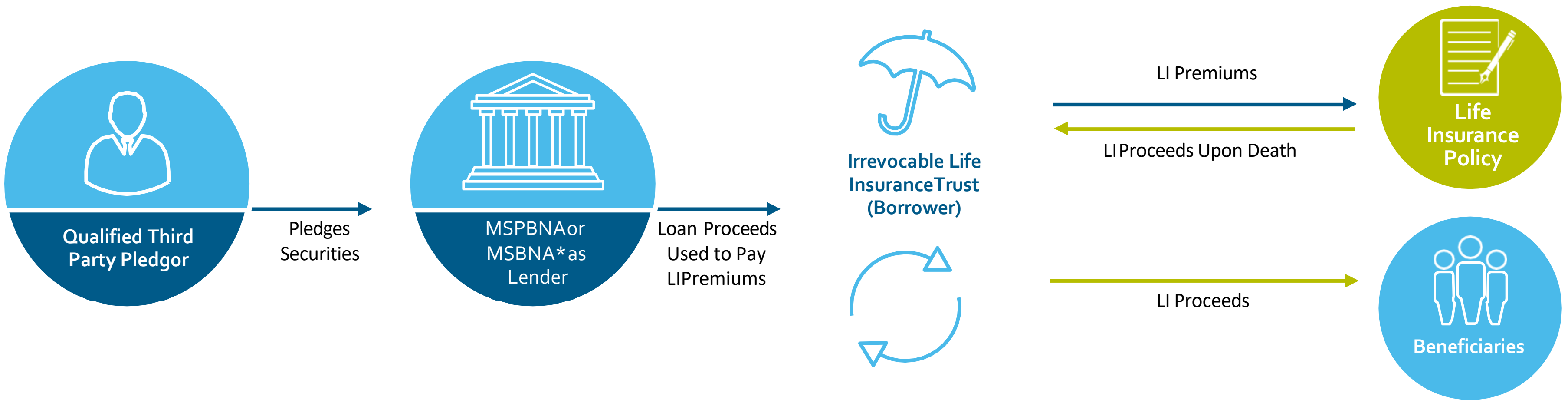
Third Party Pledges and Life Insurance ("LI") Planning

If you want to minimize your federal estate tax exposure and provide funding for your family, you may have already established an Irrevocable Life Insurance Trust ("ILIT"). You may fund the premiums with a securities based loan ("SBL") and a third party pledge as part of your gifting strategy.

- The ILIT is intended to **reduce federal estate taxes** by keeping life insurance proceeds outside the grantor's estate
- Gifting cash or securities to fund the ILIT may be treated as taxable gifts and may count against your federal lifetime **gift tax exemption**
- These pitfalls can be avoided if a **qualified third party** (i.e. the insured) pledges eligible securities to collateralize the loan to fund premiums instead of the ILIT
  - At death, LI proceeds flow to the ILIT. Once estate expenses are paid, LI proceeds flow to beneficiaries with **tax strategy advantages** intact



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Managing Rising Health Care Costs: The Importance of Long-Term Care Insurance

- Long-Term Care may be beneficial or necessary for many individuals at some point in their lives, due to age, disability, or otherwise.
- You may have properly planned to generate steady income to fund a desired lifestyle, but may not have planned for rising Health Care costs: **The projected national median annual cost of a private room in a nursing home in 2040 will be $191,177.[1]**
- A common solution for funding costly long-term care is through a Long-Term Care Insurance Policy.
- While payments and features of a policy may be customized to meet your needs and budget, you should still consider your broader tax and investment strategy in determining the best method of payment.
- If you have a Long-Term Care Insurance Policy, you may consider paying the policy's premiums with a loan. If you qualify, and if it's appropriate for your situation, a securities based loan (SBL) may allow you to prevent a disruption in your investment strategy.

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1. https://www.genworth.com/about-us/industry-expertise/cost-of-care.html

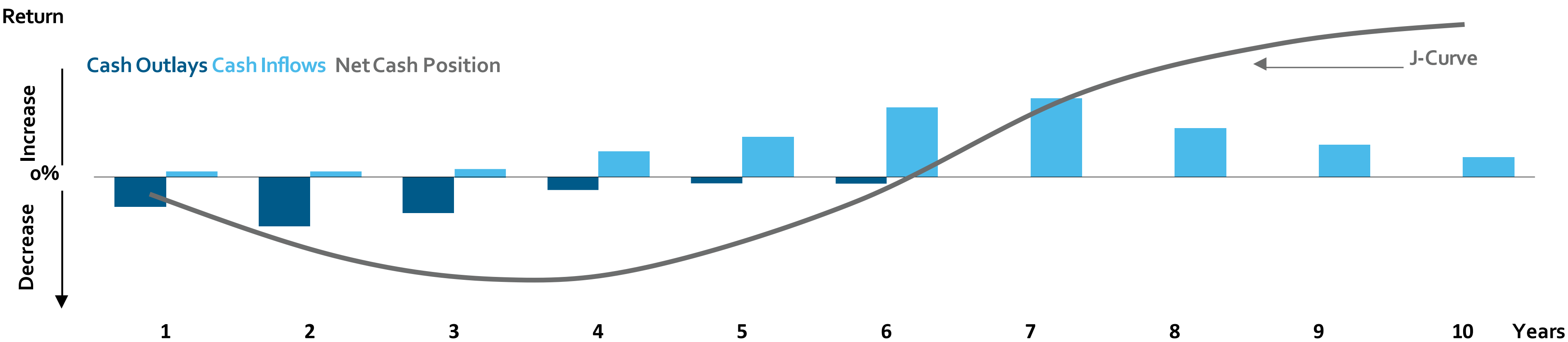
Funding Private Capital Offerings With Loans

If you are investing in Alternative Investments (AIs) such as Private Capital Offerings which include Private Equity, Private Credit and Private Real Estate, you may want to consider lending as an alternative funding option.

- The typical horizon for Private Capital Offerings is 7 – 10 years (see J-Curve diagram below) with some funds going above their 10 year stated life. This may expose you, the investor, to **Liquidity Risk** as the funds cannot be redeemed, and potential **Interest Rate Risk** as interest rates tend to change overtime.
  - If you are unable to provide the capital when requested by the fund, penalties may apply.
- Have you considered using a securities based loan[1] to fund capital calls for Private Capital Offerings? If you qualify, this option may allow you to obtain access to financing in lieu of selling appreciated assets, with the potential to keep your investment strategy intact and avoiding the negative tax consequences that may come with liquidating.
- As a Private Capital Offerings Investor, this strategy may allow you to manage the **non-investment risks** associated with liquidity and moving interest rates, while managing the cash flow needs throughout the fund's investment and holding periods.

J-CURVE: HYPOTHETICAL CASH FLOWS OF A PRIVATE CAPITAL OFFERING

For illustrative purposes only. Does not represent the performance of any specific instrument



1. A non-purpose securities based loan cannot be used to purchase, trade or carry securities or margin stock, as applicable.

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Lending products are provided by Morgan Stanley Smith Barney LLC, Morgan Stanley Private Bank, National Association or Morgan Stanley Bank, N.A, as applicable.

Borrowing against liquid assets to fund the purchase of illiquid AI can be risky, complicated, and not all clients or funds are eligible. In order to be eligible to invest, a client must be an Accredited Investor, as defined by Rule 501 of Regulation D of the 1933 Act. For certain private funds, the client must also be a Qualified Client, as defined by Rule 205-3 of the Investment Advisers Act of 1940, as amended, or a Qualified Purchaser, as defined by Section 2(a)(51) of the 1940 Act. The Firm may impose an eligibility standard for a particular private fund that may be higher than those required to meet the Accredited Investor, Qualified Client, or Qualified Purchaser standards.

Please also note that Alternative Investments are not eligible collateral for any of the securities based loans discussed.

Insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates.

Since life insurance is medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy will require a medical exam. Actual premiums may vary from any initial quotation. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing.

Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice. Morgan Stanley Wealth Management is a business of Morgan Stanley Smith Barney LLC.

Private equity funds typically invest in securities, instruments, and assets that are not, and are not expected to become, publicly traded and therefore may require a substantial length of time to realize a return or fully liquidate. They typically have high management, performance and placement fees which can lower the returns achieved by investors. They are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They may be highly illiquid with significant lock-up periods and no secondary market, can engage in leverage and other speculative practices that may increase volatility and the risk of loss, and may be subject to large investment minimums.

The private equity real estate asset class may involve special investment considerations, including investor net asset minimum criteria; investment vehicle entry and exit conditions; regulatory, tax reporting and/or compliance requirement; and appropriateness guidelines.

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Important Risk Information for Securities Based Lending: You need to understand that: (1) Sufficient collateral must be maintained to support your loan(s) and to take future advances; (2) You may have to deposit additional cash or eligible securities on short notice; (3) Some or all of your securities may be sold without prior notice in order to maintain account equity at required maintenance levels. You will not be entitled to choose the securities that will be sold. These actions may interrupt your long-term investment strategy and may result in adverse tax consequences or in additional fees being assessed; (4) Morgan Stanley Bank, N.A., Morgan Stanley Private Bank, National Association or Morgan Stanley Smith Barney LLC (collectively referred to as "Morgan Stanley") reserves the right not to fund any advance request due to insufficient collateral or for any other reason except for any portion of a securities based loan that is identified as a committed facility ; (5) Morgan Stanley reserves the right to increase your collateral maintenance requirements at any time without notice; and (6) Morgan Stanley reserves the right to call securities based loans at any time and for any reason.

With the exception of a margin loan, the proceeds from securities based loan products may not be used to purchase, trade, or carry margin stock (or securities, with respect to Express CreditLine); repay margin debt that was used to purchase, trade or carry margin stock (or securities, with respect to Express CreditLine); and cannot be deposited into a Morgan Stanley Smith Barney LLC or other brokerage account. A non-purpose securities based loan cannot be used to purchase ,trade or carry securities or margin stock, as applicable.

To be eligible for a securities based loan, a client must have a brokerage account at MorganStanley Smith Barney LLC that contains eligible securities, which shall serve as collateral for the securities based loan.

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Cash management and lending products and services are provided by Morgan Stanley Smith Barney LLC, Morgan Stanley Private Bank, National Association or Morgan Stanley Bank, N.A, as applicable.

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