Understanding 1031 Exchanges

Morgan Stanley

1031 Exchanges

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What is a 1031 Exchange?

Named after section 1031 of the U.S. Internal revenue code, a 1031 exchange is a procedure that allows an owner of appreciated real estate to exchange that property for an alternative "like-kind" property while deferring capital gains.

CAPITAL-GAINS TAX DEFERRAL AND OTHER BENEFITS

When a real estate investor wants to sell one property and buy another, the primary benefit of doing so through a 1031 exchange is the ability to **defer capital gains taxes**. Thus, the higher the capital gains bill that an investor faces, the more they would potentially gain.

While real estate investing offers many benefits, appreciated commercial property can also present investors with difficult choices when selling implies a large capital-gains tax bill. Knowing how to invest in a tax-efficient manner can have a significant impact on the value of those benefits, and 1031 exchanges are one of the most tax-efficient investment vehicles available to real estate investors.

A 1031 EXCHANGE MAY ENABLE INVESTORS TO:

- Increase purchasing power in the replacement property by freeing up capital
- Diversify assets
- Consolidate several properties into one, or divide one into several
- Gain the flexibility of owning shares in a portfolio of real estate in place of direct property ownership
- Sell a real estate investment with a low cost basis
- Move to a passive role, reduce ongoing property management burdens or switch to a managed property
- Seek a property with better return prospects
- Capitalize on the value of appreciated assets
- Reset the depreciation clock
- Maximize the amount of wealth working for them
- Bequeath their assets and take advantage of the step-up in tax basis

A 1031 EXCHANGE MAY HAVE:

- A high minimum investment
- Low liquidity for at least three years (potentially longer)
- Require the help of tax, real estate and potentially estate planning professionals
- Single property risk
- Nonpermanent solution
- Difficulty around estate planning (divisibility among heirs)

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How Does a 1031 Exchange Work?

1031 Exchanges Require the Use of a Qualified Intermediary and Have Complex Rules Around Property Type, Value and Timing

NECESSITY OF A QUALIFIED INTERMEDIARY

A qualified intermediary creates the exchange, prepares documentation, holds exchange proceeds and protects the investor from actual or constructive receipt of exchange funds. The exchange *must* be set up through a qualified intermediary prior to the sale in order to maintain tax-deferral eligibility

REINVEST NET PROCEEDS AND REPLACE DEBT

All net proceeds from the relinquished property must be reinvested for full tax deferral, and any debt paid off by the buyer must be offset with new debt used to acquire the replacement property. If the paid-off debt is not fully offset, investors may be required to use additional cash to acquire the replacement property

LIKE-KIND PROPERTY OF EQUAL OR GREATER VALUE

Both the relinquished and replacement properties must be held as investments or for productive use in a business and do not have to be the same property type

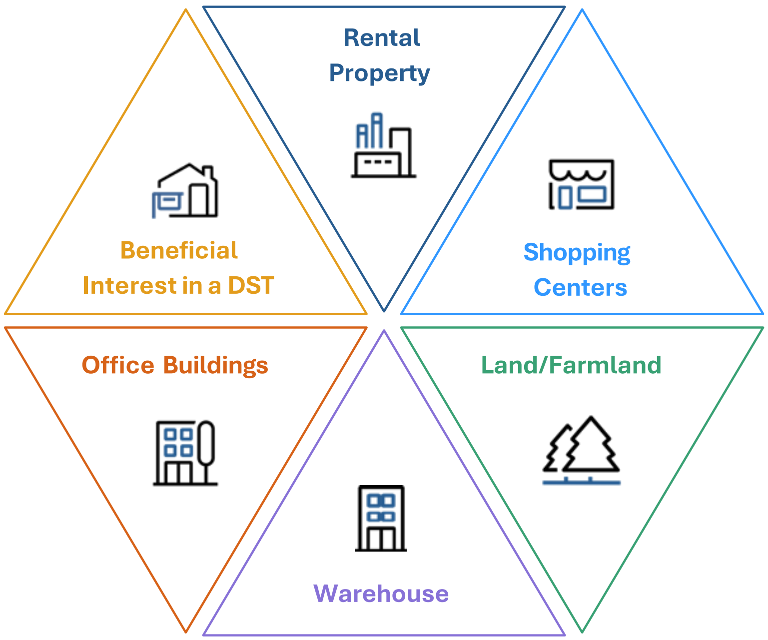
- Examples: Rental houses, apartments, shopping centers, unimproved land, office buildings, warehouses, investment homes or beneficial interests in a Delaware statutory trust (DST)
- Personal property and real estate outside the U.S. do not qualify

DEADLINES

Investors must identify potential replacement properties within 45 days of selling the relinquished property, and must acquire the replacement property or properties within 180 days

IDENTIFYING PROPERTIES BY 45-DAY MARK

- You can identify up to three replacement properties as potential purchases regardless of value, or
- Can exceed three properties so long as their aggregate value is 200% or less of the relinquished property, or
- Exceed both above rules so long as you acquire 95% of the value of the identified properties within the 180-day exchange period



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Exchanging Into a Delaware Statutory Trust

Section 1031 Allows Not Only Direct Property Exchanges, But Also Exchanges From a Single Property Into a Delaware Statutory Trust (DST).

WHAT IS A DST?

BENEFICIAL OWNERSHIP INTEREST IN INSTITUTIONAL-QUALITY REPLACEMENT PROPERTY

A DST is a trust that owns large, institutional-quality property

The IRS has ruled that beneficial interests in a DST may be treated as direct interests in replacement property for purposes of IRC Section 1031

Investors receive a stated income stream backed by a guaranteed fixed master lease

WHO IS A DST POTENTIALLY APPROPRIATE FOR?

A DST MAY BE PARTICULARLY APPROPRIATE FOR INVESTORS WHO ...

Are unsure they can find and acquire replacement property within the stringent time requirements of 1031 exchanges

Have grown tired of actively managing their own investment property and would prefer to switch to a more passive role

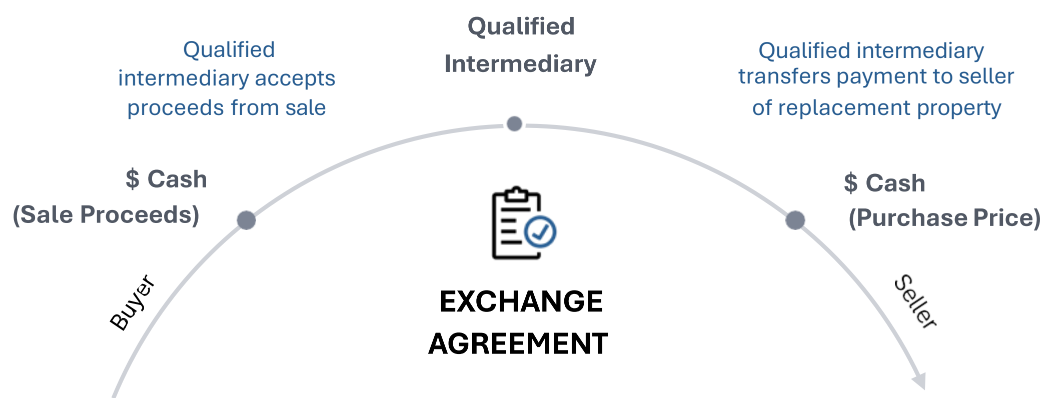
Seek access to institutional-quality real estate that they may not be able to acquire directly

BENEFITS OF EXCHANGING INTO A DST

BY EXCHANGING INTO A DELAWARE STATUTORY TRUST, INVESTORS GAIN ...

Access to institutional-quality real estate	Deferral of capital gains taxes
Professional property management	Potential passive rental income
Pre-arranged financing (if applicable)	Potential for appreciation
Ease in complying with IRC Section 1031 requirements	Tax benefits of traditional investment in real estate

The 1031 Exchange Cycle



1 IDENTIFY QUALIFIED INTERMEDIARY

2 LIST RELINQUISHED PROPERTY

3 SALE OF RELINQUISHED PROPERTY

4 IDENTIFY POTENTIAL REPLACEMENT PROPERTY

5 FINALIZE PURCHASE OF REPLACEMENT PROPERTY (BENEFICIAL INTEREST IN A DST)

DISPOSITION PERIOD → **IDENTIFICATION PERIOD** → **EXCHANGE PERIOD**

Closing Date: Day #0

Day #45

Day #180

Whether the replacement property is real estate or a beneficial interest in a DST, the exchange must flow through a qualified intermediary who holds the proceeds from the sale of the property during the process

Investors must identify potential replacement properties within 45 days of selling the relinquished property, and must acquire the replacement property or properties within 180 days

UPREIT: The 721 Exchange Option

For investors looking to achieve greater diversification and active management than a typical DST can provide, an Umbrella Partnership Real Estate Investment Trust (UPREIT) is a program that combines both a 1031 and a 721 exchange to provide the benefits of owning shares in a Real Estate Investment Trust (REIT).

WHAT IS A 721 EXCHANGE?

Section 721 allows investors to contribute property to a REIT's operating partnership (OP) in exchange for OP units, without paying capital gains.

In order for an investor to contribute property to a REIT through a 721 exchange, the property must typically be institutional-grade quality. Few individual investors own this type of property

By exchanging a property that does not meet a REIT's criteria for a DST interest in institutional-grade property through a 1031 exchange, an investor can contribute that DST interest to a REIT in a tax-deferred 721 exchange

This enables investors to defer capital gains taxes without needing to find another 1031 property

WHAT ARE THE BENEFITS?

By buying into a REIT, investors gain...

Access to a professionally managed, diversified portfolio of institutional-quality real estate

Upon death, receipt by heirs of a stepped-up basis in OP units, which erases the tax-deferment debt (i.e., permanent tax deferral)

Simplified estate planning among multiple heirs, as dividing shares in the REIT is often easier than liquidating physical real estate

Potential for liquidity benefits after 2 years in the REIT stage, when an investor can pull their original basis out as return of principal. This allows the investor to reinvest that original basis back into another piece of real estate

Full divisibility of OP units

Actively managed portfolio

Continuing deferral of capital gains taxes

Greater diversification

Purchasing Power: A Potential Significant Advantage

THIS EXAMPLE DEMONSTRATES THE PURCHASING POWER GAINS FROM USING A 1031 EXCHANGE VS. REINVESTING ON AN AFTER-TAX BASIS:

SELLING AND REINVESTING ON AN AFTER-TAX BASIS

Original Purchase Price	$3,000,000
Capital Improvements	$100,000
Depreciation Taken During Holding Period	($2,000,000)
Net Adjusted Basis	$1,100,000
Sales Price if Sold Today	$8,500,000
Net Adjusted Basis	($1,100,000)
Closing Costs Related to the Sale	($400,000)
Capital Gains	$7,000,000
Depreciation Recapture	($2,000,000)
Net Capital Gain	$5,000,000
Tax on Depreciation Recapture (25%)	$500,000
Federal Capital Gains Tax (20% Fed Rate)	$1,000,000
Medicare Surtax (3.8%)	$190,000
State Tax (eg. 13.3% California Rate)	$665,000
Total Tax Liability	$2,355,000
Today's Sales Price	**$8,500,000**
Loan Balance on Property	**($1,600,000)***
Closing Cost	**($400,000)**
Tax Liability	**($2,355,000)**
After-Tax Sale Proceeds ($6,500,000–$2,355,000)	$4,145,000
Max Available Mortgage With 30% Down Payment	$9,671,667
Max Purchase Price of New Property	**$13,816,667**

SELLING AND REINVESTING THROUGH A 1031 EXCHANGE

Original Purchase Price	$3,000,000
Capital Improvements	$100,000
Depreciation Taken During Holding Period	($2,000,000)
Sales Price if Sold Today	$8,500,000
Closing Costs Related to the Sale	($400,000)
Loan Balance on Property	($1,600,000)*
1031 Exchange Tax-Deferred Sale Proceed	$6,500,000
Max Available Mortgage With 30% Down Payment	$15,166,667
Max Purchase Price of New Property (70% leverage)	**$21,666,667**
Purchasing Power Advantage With 1031 Exchange	**$7,850,000**

For Hypothetical Illustrative Purposes Only. There can be no assurance that investors will receive the results shown above. *The remaining loan balance on the property is $1,600,000.

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Original QOZ Program Rules and Benefits

For Investments Made by December 31, 2026.

Investors may realize federal income tax benefits based on how long they hold the QOZ investment.

DEFERRAL

Investors can defer capital gains tax on appreciated assets if they reinvest those gains in a QOZ within 180 days after the sale:

- Investors may defer capital gains tax until either the date on which the QOZ investment is sold or December 31, 2026, whichever is earlier [1]
  - Investors must recognize the deferred gain on their 2026 tax return even if they do not sell
  - The 180-day period generally starts on the day the gain is realized (the sale date)

ELIMINATION

Federal income taxes on capital gains may be eliminated for investors who hold their QOZ investment for 10 years or longer and sell or exchange the investment within the applicable time frame: [2]

- In many cases, after 10 years the tax burden on appreciation within the QOZ investment is eliminated

1. For investments made after December 31, 2026, a rolling five-year deferral applies under OBBBA rules. See following slide.
2. The 10-year Opportunity Zone benefit for excluding tax on post-investment appreciation is subject to statutory timing limitations. In general, to claim the exclusion, an investor must sell or exchange, or otherwise dispose of, its Qualified Opportunity Fund (QOF) investment by the applicable deadline (commonly referenced as no later than December 31, 2047—i.e., before January 1, 2048) and make the applicable election. Investors should consult their tax advisors regarding eligibility and the application of any updated guidance.

Choosing a Qualified Opportunity Zone Fund

Not All Qualified Opportunity Zone (QOZ) Funds are Created Equal, as Market Dynamics, Real Estate Fundamentals and Manager Capabilities Differ. The Underlying Investment Opportunity is the Most Important Consideration, Followed By Tax and Other Potential Benefits.

QOZ REGULATIONS

QOZ funds are privately managed vehicles subject to specific investment and business-eligibility rules, including:

- QOZ funds, as privately managed investment vehicles organized as corporations or partnerships, are required to invest and hold at least 90% of their assets in a QOZ property
- Excludes businesses such as gambling facilities, liquor stores, golf courses and country clubs
- Unlike a 1031 exchange, QOZ reinvestment generally applies to eligible gains (not sale proceeds/principal) and does not require like-kind replacement property

ATTRACTIVE SUBMARKET OPPORTUNITIES

An experienced QOZ manager may generally focus its development efforts on neighborhoods with the following attributes:

- Robust household formation
- Positive employment outlook
- Transit-oriented and live/work/play neighborhoods
- Favorable population trends

Introducing Morgan Stanley Total Tax 365

Total Tax 365 is our full spectrum of year-round tax-management solutions, tailored to help you mitigate tax drag in your portfolio

FULL SPECTRUM OF SOLUTIONS

We offer a broad range of solutions that establish a new standard for integrating tax-efficient strategies across all your accounts, throughout the year.

TAILORED TO YOU

Our Financial Advisors can help you create a personalized, tax-efficient investment plan that will evolve with you as your life and the tax environment change.

INTEGRATED INTO YOUR PLAN

We help you tackle tax-related goals such as managing concentrated positions, planning charitable giving, generating tax-efficient income, or finding an appropriate combination of tax-advantaged accounts.

CONTINUALLY WORKING FOR YOU

Our approach to tax efficiency is an ongoing one, with many of our solutions working throughout the year to identify and capitalize on opportunities as they arise.

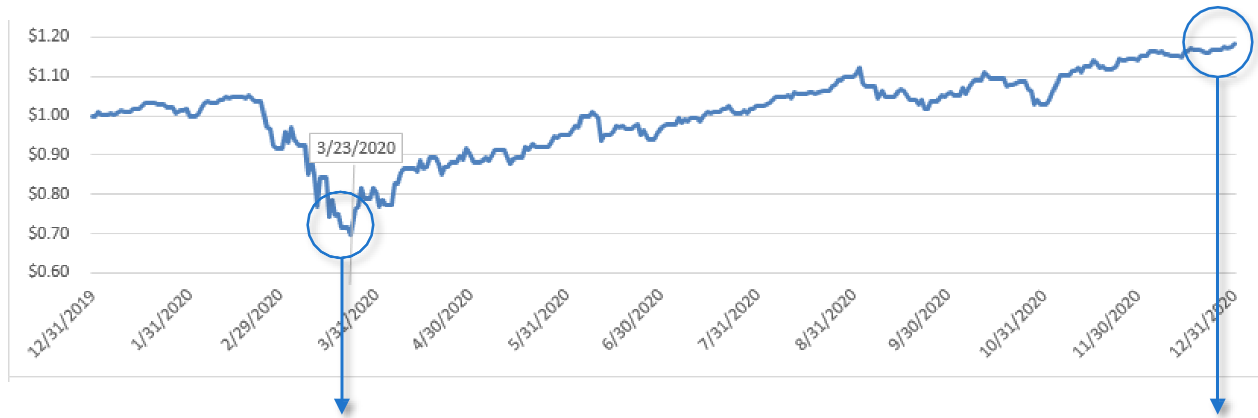
Direct Indexing

Replicating a market index through direct ownership of individual stocks enables you to strategically harvest losses to offset your capital gains

WHAT ARE THE BENEFITS OF DIRECT INDEXING STRATEGIES?

- **BROAD MARKET EXPOSURE.** Select exposure to a variety of industries, geographies and market caps
- **TAX-LOSS HARVESTING.** Harvested losses[1] to offset capital gains and reduce your tax burden
- **CUSTOMIZATION.** Ability to restrict investments to stocks, industries, sectors, or introduce factors, themes and sustainability metrics

S&P 500® Index in 2020



54% of stocks were down >40% from their high
96% of stocks were down >20% from their high

But only 27% of stocks were down >10% by the end of 2020

Harvesting losses only at year-end would result in potentially missing out on many tax-loss harvesting opportunities.

Direct indexing combines the benefits of year-round opportunistic tax loss harvesting with the diversification of a broad market index

[1] Morgan Stanley and the Select UMA Tax Management Service do not guarantee adherence to the IRS Wash Sale Rule, which can disallow the current use of the tax loss.

The UPREIT Process

The UPREIT process uses two distinct steps—the 1031 exchange and the 721 exchange. Taken together, this allows investors the ability to convert their investment property ultimately into operating partnership units of a nationally syndicated REIT portfolio.

A TWO-STEP PROCESS

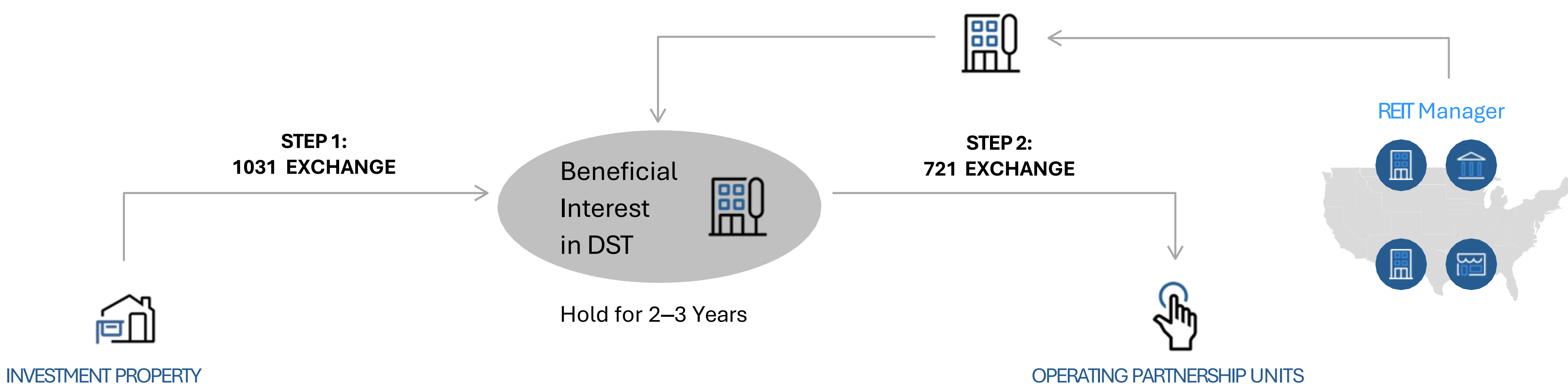
Investors without institutional-quality real estate can combine 1031 and 721 exchanges. Neither step triggers capital gains taxes.

1

1031 exchange: An investor swaps their original, nonqualifying property for shares in a Delaware statutory trust (DST)

2

721 exchange: The REIT can exercise an option to purchase one or more properties held in the DST at fair market value, for which the investor receives OP units in the REIT. The REIT typically owns a diversified portfolio of properties across asset types and geographic locations



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Consider Maximizing Contributions to Tax-Advantaged Accounts

Account Type	Annual Contribution Limit	Key Restrictions
Traditional 401(k)	$24,500 (before-tax)	• Required minimum distributions starting at age 73 • Early withdrawal penalty before age 59.5 (unless an exception applies)
Roth 401(k)	$24,500 (after-tax)	• Early withdrawal penalty on gains before age 59.5 (unless an exception applies) • Nonqualified distributions are prorated between contributions (already taxed) and gains (taxable)
After-Tax 401(k)	$47,500 minus employer contribution (after-tax)	• Required minimum distributions starting at age 73 • Early withdrawal penalty on gains before age 59.5 (unless an exception applies) • Maximum tax saving potential subject to availability of in-plan Roth 401(k) conversion • After-tax 401(k) contributions subject to availability based on terms of the plan
Traditional IRA	$7,500 (before-tax)	• Required minimum distributions starting at age 73 • Early withdrawal penalty before age 59.5 (unless an exception applies) • Partial or no income deduction for contributions made by high earners
Roth IRA	$7,500 (after-tax)	• Regular contributions subject to income limit; requires after-tax Traditional IRA contributions and conversion to Roth IRA if over limit • Early withdrawal penalty on gains before age 59.5 (unless an exception applies) • Nonqualified distributions are funded first by contributions (already taxed) and then by gains (taxable)
529 Education Savings Plan	No limit (after-tax) May be subject to gift tax above $19,000 (single) / $38,000 (married and electing to split gifts)	• Only for qualified education expenses • Penalty on gains for distributions for nonqualified expenses • State tax deductibility varies
Health Savings Account (HSA)	$4,400 (single) / $8,750 (joint) (before-tax)	• Only for qualified health care expenses • Penalty on distributions for nonqualified expenses • High deductible health plan enrollment required

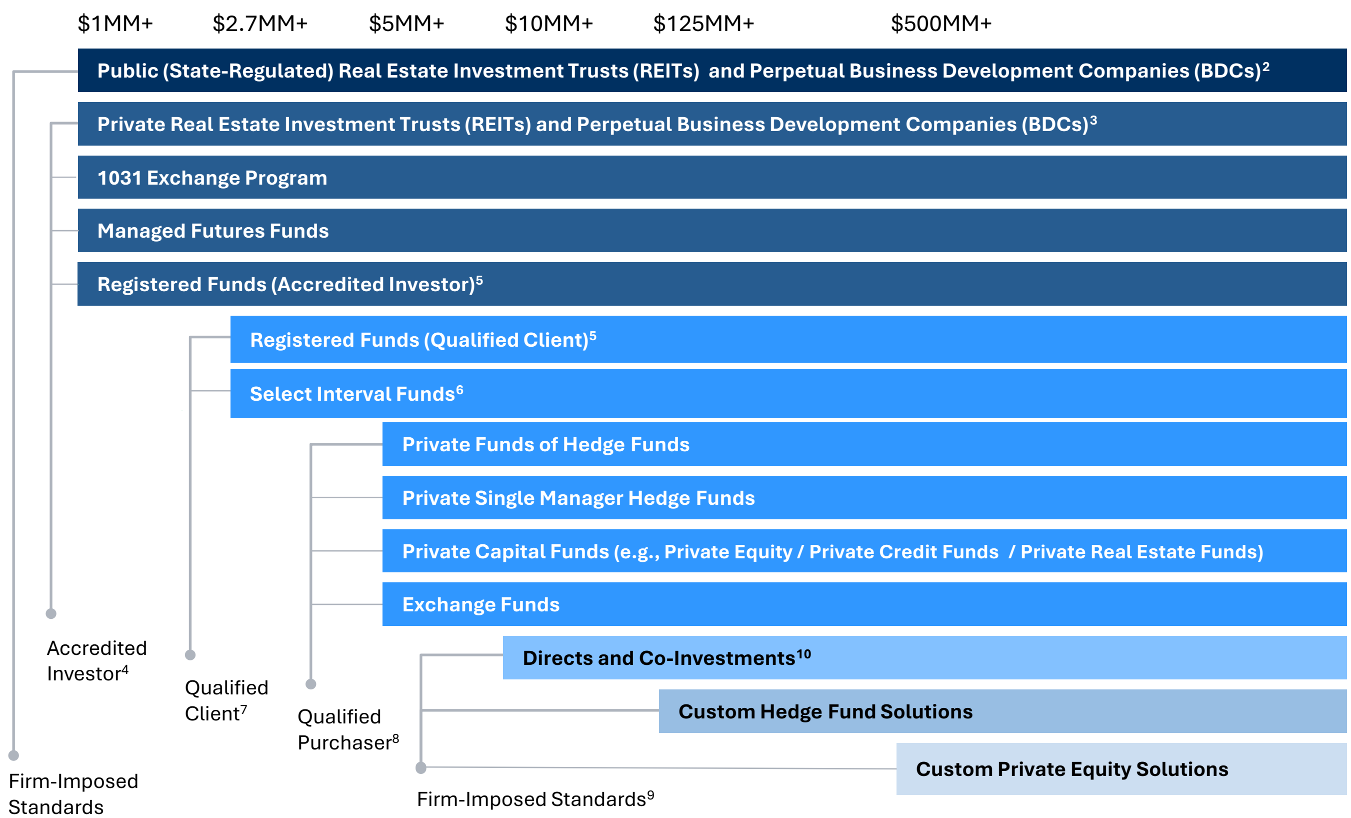
Source: Morgan Stanley Wealth Management GIO. IRS. Note: All amounts specified as of 2026 and do not include catch up contributions. Note that the combined contributions to traditional and Roth 401(k) accounts cannot exceed $24,500. The combined contribution to 401(k) plans from both employer and employee cannot exceed $72,000. Any employer contribution will lower the $47,500 contribution limit for after-tax 401(k) accounts. Also, note that the starting requirement minimum distribution age is 73 for individuals born on Jan. 1, 1951, through and including Dec. 31, 1959. The combined contributions to traditional and Roth IRA accounts cannot exceed $7,500. For 529 plans, further contributions are not allowed after reaching the maximum account balance. Large contributions to 529 plans may be possible without affecting the lifetime federal gift tax exclusion by superfunding, or front-loading five years of contributions and filing an election on a timely filed federal gift tax return. Subject to limitations on the total size of a 529 account, a donor may also make a large contribution to a 529 account using a portion of the donor's lifetime federal estate and gift tax exemption. For additional details, see the November 2024 report titled “Preparing for the Next Tax Retime: Six Steps to a More Tax-Efficient Portfolio.”

Alternative Investments Eligibility

Investors participating in alternative investments offered through Morgan Stanley must meet certain SEC and/or state standards depending on the structure of the fund or service. Morgan Stanley may impose a qualification standard that is higher than those required to meet SEC/state standards. Additionally, individual funds or services may have their own investment minimum and eligibility criteria.

Alternative investments are offered only to qualified investors. Client eligibility[1] to purchase alternative investments is typically based on the client's net worth or, as applicable, net investable assets, as shown.

CLIENT NET WORTH/NET INVESTABLE ASSET MINIMUMS



1. Eligibility on its own does not satisfy all requirements and guidelines, nor does it imply appropriateness. Speak with your Financial Advisor or Private Wealth Advisor to help determine if alternative investments may be appropriate for you. Please see the Important Disclosures at the end of this publication for additional information and the applicable offering documents for specific eligibility requirements.
2. Public (State-Regulated) Real Estate Investment Trusts and Perpetual Business Development Companies generally require a minimum net worth of $1 million, or income of $200K and net worth of $250K for an individual, and $5 million for an entity, and must meet specific liquid net worth requirements.
3. Private Real Estate Investment Trusts & Perpetual Business Development Companies generally do not have state-regulated liquid net worth requirements.
4. Funds that rely on Accredited Investor standard generally require a minimum net worth of $1 million for an individual (excluding primary residency), and $5 million for an entity.
5. The specific Registered Fund structure will determine eligibility standards. Funds that rely on an Accredited Investor standard and/or a Qualified Client Standard generally include Registered Funds of Hedge Funds, Registered Single Manager Hedge Funds, Registered Private Equity Funds, Registered or Private Real Asset Funds and Private Business Development Companies.
6. Internal Funds have varying eligibility requirements. Please consult applicable offering documents.
7. Funds that rely on a Qualified Client standard require a client to have a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than $2.7 million, excluding primary residence and related debt, at the time the contract is entered into with the fund (the "net worth test"). Funds that rely on a Qualified Purchaser standard must also meet Accredited Investor standards and require minimum net investable assets of $5 million for an individual, and $25 million for an entity.
8. In addition to meeting Accredited Investor and Qualified Purchaser standards, these funds are subject to firm-imposed higher eligibility standards.
9. Eligibility is reviewed on a case-by-case basis and is subject to change.

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Tax Efficient Solutions

With access to some of the industry's leading tax-management solutions and services, we can help you mitigate your taxes —365 days a year

YOUR GOALS	SOLUTIONS THAT CAN HELP
You have a highly appreciated portfolio and want to change your investment approach without triggering a large tax bill.	Harness the benefit of our tax-smart tools and solutions (e.g., tax-loss harvesting and more) to help **mitigate capital gains while managing risk.**
You want to extend the benefits of tax-efficiency to a new or existing fixed income allocation.	Leverage tax-efficient fixed income strategies, such as **tax-optimized ladders or municipal bonds**, or work with a **professional bond manager who can identify tax loss harvesting opportunities in your bond portfolio that may boost after-tax returns**.
You want to leverage charitable giving to manage portfolio concentrations	Donation of appreciated assets to a **Donor Advised Fund** can allow you to pay less in capital gain taxes, while also potentially receiving a charitable deduction.
You own a large position in one stock and want to diversify exposure.	Use our tax-efficient solutions such as **exchange funds to diversify concentrated stock positions** created by an inheritance, employment stock grant or appreciation.
You've built your wealth and want to a tax-smart way to liquidate some of your investments.	Our powerful **Intelligent Withdrawal technology** can help you determine a potentially tax-efficient combination of positions (and systematic tax-efficient lot selection for managed accounts) to sell to meet spending needs.

QOZ 2.0: What Changes in 2027

The One Big Beautiful Bill Act (OBBBA) Makes the QOZ Program Permanent, Introducing Clarity and Long-term Enhancements for Investments Made After December 31, 2026.

A PERMANENT, ROLLING PROGRAM

- **PERMANENT PROGRAM**: The OBBBA makes the QOZ program a lasting part of the federal tax code, with no sunset
- **10-YEAR DESIGNATION CYCLE**: New zones take effect January 1, 2027, on a rolling decennial basis. Current QOZ maps also remain valid through 2028
- **CONTIGUOUS TRACTS ELIMINATED**: Tracts that qualified solely by adjacency to a low-income community, not on their own merits, are ineligible under 2027 rules
- **TIGHTENED ELIGIBILITY OF LOW-INCOME COMMUNITIES**: The 2027 rules require median family income at or below 70% of area median, down from 80%, potentially reducing/eliminating census tracts available today

ENHANCED TAX BENEFITS POST-2026

- **ROLLING FIVE-YEAR DEFERRAL:** Deferred gain is recognized on the fifth anniversary of the investment date, not a fixed calendar deadline [(1)]
- **10% BASIS STEP-UP:** At the five-year mark, 10% of the originally deferred gain is permanently eliminated
- **TAX-FREE GROWTH:** Capital gains on QOZ investments held 10+ years may be eliminated for up to 30 years from the investment date [(2)]
- **QUALIFIED RURAL OPPORTUNITY FUNDS (“QROF”):** QROFs invest in rural QOZs and receive a 30% step-up in basis after five years, triple the standard rate. Designed to direct additional capital toward rural communities.

THE 2026 INVESTMENT WINDOW

- **CORE BENEFIT UNCHANGED:** Long-term tax-free growth applies to both the current program and QOZ 2.0
- **PASS-THROUGH ENTITIES:** Gains generated in 2026 may retain QOZ investment eligibility into 2027, subject to applicable 180-day rules [(3)]
- **FAVORABLE ENTRY POINTS:** Current commercial real estate valuations may represent attractive long-term opportunities

1. Investments made by December 31, 2026, remain subject to original TCJA rules, including deferral until December 31, 2026.
2. At the 30-year anniversary, basis steps up to fair market value. Appreciation beyond that point may be subject to tax.
3. Pass-through entities (e.g., partnerships, S Corps, or trusts) may elect to start their 180-day window on the date their K-1s returns are due, potentially extending eligibility into 2027. Please consult a tax advisor regarding your specific window and applicable rules.

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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.

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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.

GIMA Conflicts of Interest: Our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by Global Investment Manager Analysis (GIMA) come from a variety of sources, including our MSWM Financial Advisors and their direct or indirect managers, and other business persons within MSWM or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, MSWM or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds or for which a portion of their clients' assets are already invested. Separately, certain strategies managed or sub-advised by us or our affiliates, including but not limited to MSIM and Eaton Vance Management ("EVM") and its investment affiliates, may be included in your account. See the conflicts of interest section in the applicable Morgan Stanley ADV brochure for a discussion of other types of conflicts that may be relevant to GIMA's evaluation of managers and funds. In addition, MSWM, Morgan Stanley & Co. LLC ("MS & Co."), managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs.

MSWM, managers, MS & Co., and their affiliates receive compensation and fees in connection with these services. MSWM believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all these companies from an account.

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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Annuities and insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. Not all products and services discussed herein are available through Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. Since life and long-term care insurance are 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. 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. Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY.

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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.

Deposit Products and FDIC: Under the Bank Deposit Program, free credit balances held in an account(s) at Morgan Stanley Smith Barney LLC are automatically deposited into an interest-bearing deposit account(s) at FDIC-insured banks. Certain conditions must be met. For more information, view the Bank Deposit Program Disclosure Statement. The Savings and Preferred Savings Programs offer FDIC-insured deposit accounts at Morgan Stanley Private Bank, National Association, Member FDIC or Morgan Stanley Bank, N.A., Member FDIC. The Savings programs are not intended for clients who need to have frequent access to funds and those funds will not be automatically accessed to reduce a debit or margin loan in your brokerage account. Withdrawals are limited to 10 per calendar month, and excess withdrawals may incur fees. Promotional rates may be offered from time to time and are subject to change at any time.

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