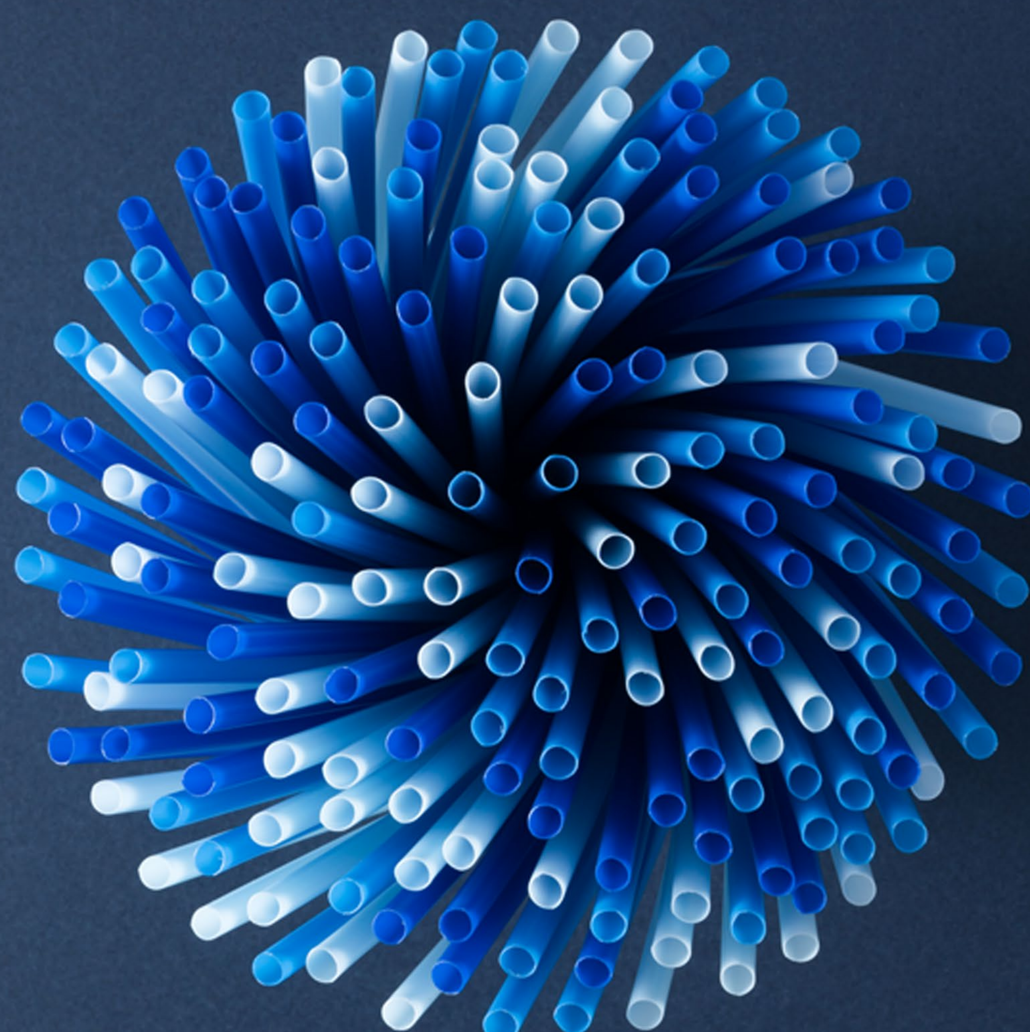
Morgan Stanley

Concentrated Stock Solutions by Morgan Stanley™

Strengthening Your Portfolio With Diversification

Many successful investors find themselves with a **concentrated position** in their portfolio. Whether through company stock awards, inheritance or a successful investment, holding a large position in a single stock often reflects positive developments—but it can also create hidden risk.

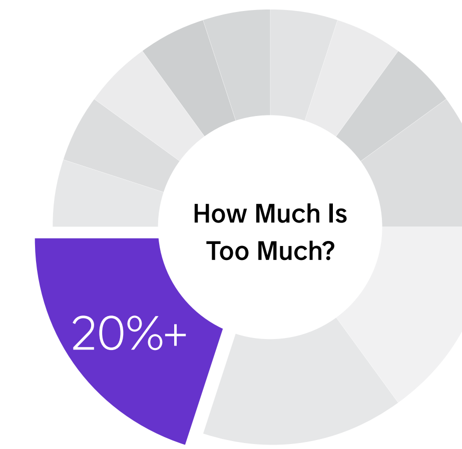


Can There Be Too Much of a Good Thing?

Past successes may introduce future risks when a single stock makes up a disproportionate amount of your wealth.

When a single stock represents **over 20%** of your portfolio, it's considered concentrated. This almost always starts off as a good thing—a positive work or windfall event such as founders' stock, equity compensation, mergers, inheritance or simply outstanding performance over time. And you should celebrate how you got here.

But you should also understand the risks that come with this success—and grow as your position grows—including increased volatility, susceptibility to market downturns and a generally higher risk profile.



Yesterday vs. Tomorrow: The Concentration Dilemma

Staying on your financial plan means mitigating your risks. And that means diversifying your concentrated positions. Here's why:

Yesterday's winners rarely continue winning.

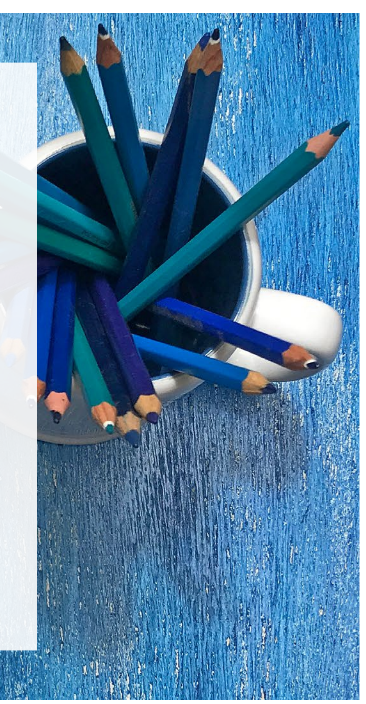
60% of stocks that outperformed over a five-year period became underperformers in the subsequent five years.

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.

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: FactSet, Morgan Stanley Wealth Management Global Investment Committee as of 12/31/24.
Russell 1000 Index measures the performance of the 1,000 largest companies based on total market capitalization.

Why We Hold On: Understanding Your Connection

You may have both financial and personal reasons for maintaining a concentrated position. Even for the most rational investors, the positive association with how you got into the position creates a hesitation when it comes time to diversify. These positions can be hard to let go of.

Common Sources and Reasons for Concentrated Stock Positions Include:

Employment Achievements

Founders' stock or pre-IPO shares

Public company shares received in a merger or acquisition

Incentive compensation paid to company executives and other key employees

Long-term Investment Gains

Gifts and inheritances

Owning stock that has outperformed other holdings over time

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.

There are also more specific reasons keeping you from diversifying. Here are the ones we see most often:

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?

Consequences of inertia

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 harnesses the power of our full Firm

I know this company and believe it's poised for success.

Risk of overconfidence

A more diversified approach still gives you exposure while helping to protect 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.

Overreliance on loyalty

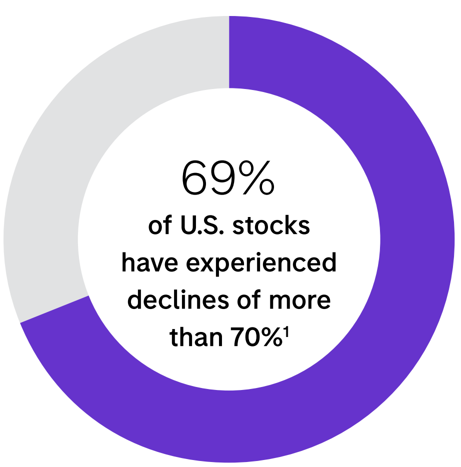
We can design a strategy that maintains exposure while also helping to protect the financial future you've worked so hard to build

Why It Matters: Understanding Your Risks

Despite understanding the importance of diversification for portfolio health overall, you may still not have a full understanding of the risks involved in holding on to a concentrated position.

- 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 your 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?



What You Can Do About It: Understanding Your Paths Forward

Diversifying a concentrated position can be far more nuanced than simply selling.

Morgan Stanley has made significant investments in our product suite, platform, and resources to create an unmatched toolkit for managing your concentrated position. Our goal is to help you stay on track with your financial plan while addressing your diversification concerns in a tax-smart way.

Meet HOPES

HOPES is our framework of integrated strategies for a personal diversification plan that considers your individual goals, situation and tax considerations.

It harnesses the full power of Morgan Stanley to effectively combine tax-smart solutions like hedging, gifting, exchange funds and more around your individual circumstances—so you can pursue your goals.

Hold	Defer capital gains and maintain potential upside in the stock
Options strategies	Mitigate downside risk, dampen volatility, generate potential income or monetize your position
Planned giving	Combine charitable giving and potential for income
Exchange funds	Diversify with tax deferral
Sell in a tax-smart way	Generate immediate liquidity while mitigating tax impacts

[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 12/31/24. Returns are calculated daily, starting on 1/3/1972. Recovery is defined as recovery in price to high prior to maximum drawdown. Information as of 12/31/24.

Morgan Stanley Has Innovative Solutions To Help Meet This Challenge

The size, scale, and support of Morgan Stanley help you not just diversify—but diversify well.

From our tax-efficient strategies, innovative alternative investments, and exclusive thought leadership, we have the depth and breadth of resources to customize a mix of solutions for your individual needs.

Sophisticated Risk Platform

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

Capital Markets Capabilities

Benefit from institutional research and trading capabilities, including hedging and monetization, listed and bespoke options/derivatives, 10b5-1 plans, block trading, and more.

Equity Compensation Guidance

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

Personal, Holistic, Tax-Aware Diversification

Spotlight: A Deeper Dive Into Our Offerings

Morgan Stanley offers multiple, integrated paths to diversification. Here's a deeper look into how three of our core capabilities can help to address the risk of your concentrated equity:

Tax-Smart Solutions

When diversifying a concentrated position, managing tax impact can make a significant difference in preserving your wealth. Tax is often the main reason clients hold on too long.

Our **Total Tax 365** approach enables multi-year planning, customized to your personal situation. We can help you coordinate tax-loss harvesting from other holdings to offset your gains, time sales across tax years to manage impact, and integrate charitable strategies for tax-aware giving.

And through products like direct indexing, you can gradually transition while maintaining market exposure.

Alternative and Options Strategies

Qualified investors can diversify concentration and defer the recognition of taxes through our tax-efficient **exchange funds**[1] which offer immediate diversification without triggering taxes—you swap your shares in exchange for units in a professionally managed portfolio.

Consider **Long/Short Extension Funds**—a strategy that deploys leveraged long and short equity exposure to enable enhanced tax-loss harvesting in up and down markets.

Customized transition planning, using hedging, monetization, or exit strategies via exchange traded options/derivatives.

Advice and Analytics

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

Our **Equity Vulnerability Score**[2] analyzes your stock across multiple quantitative metrics in three categories—Financial Stability, Fundamental Momentum and Volatility and Tail Risk—to rank its drawdown vulnerability relative to the entire U.S. market.

Combined with our **Tactical Equity Framework's** eight factor model for near-term performance insights, you gain a comprehensive view of both downside risk and relative strength.

Plus, our exclusive **HOPES for Concentrated Equity Tool**, helps your Advisor prepare a tailored plan by evaluating potential multi-strategy allocations with quantitative rigor.

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

[2] 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.

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC, its affiliates, Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice. Individuals are encouraged to consult their tax or legal advisors to understand the tax and legal consequences of any actions, including implementation of any multi-strategy allocations, included in this Information Request.

Clients may elect Tax Management Services for the account by notifying their Financial Advisor and indicate what Maximum Tax or Realized Capital Gain Instruction is desired for the account, if any. The Tax Management Services Terms and Conditions attached to the Morgan Stanley Smith Barney LLC Select UMA ADV brochure as Exhibit A will govern Tax Management Services in the account. Review the Morgan Stanley Smith Barney LLC Select UMA ADV brochure carefully with your tax advisor. Tax Management Services are not available for all accounts or clients and may adversely impact account performance. Tax Management Services do not constitute tax advice or a complete tax-sensitive investment management program. There is no guarantee that Tax Management Services will produce the desired tax results.

Investing in the market entails the risk of market volatility. The value of all types of securities may increase or decrease over varying time periods. This analysis does not purport to recommend or implement an investment strategy. Financial forecasts, rates of return, risk, inflation, and other assumptions may be used as the basis for illustrations in this analysis. They should not be considered a guarantee of future performance or a guarantee of achieving overall financial objectives. No analysis has the ability to accurately predict the future, eliminate risk or guarantee investment results. As investment returns, inflation, taxes, and other economic conditions vary from the assumptions used in this analysis, actual results will vary (perhaps significantly) from those presented in this analysis.

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

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. Certain of these risks may include but are not limited to: Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; Lack of liquidity in that there may be no secondary market for a fund; Volatility of returns; Restrictions on transferring interests in a fund; Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; Absence of information regarding valuations and pricing; Complex tax structures and delays in tax reporting; Less regulation and higher fees than mutual funds; and Risks associated with the operations, personnel, and processes of the manager. Further, opinions regarding Alternative Investments expressed herein may differ from the opinions expressed by Morgan Stanley Wealth Management and/or other businesses/affiliates of Morgan Stanley Wealth Management.

Certain information contained herein may constitute forward-looking statements. Due to various risks and uncertainties, actual events, results or the performance of a fund may differ materially from those reflected or contemplated in such forward-looking statements. Clients should carefully consider the investment objectives, risks, charges, and expenses of a fund 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.

Asset allocation, diversification and rebalancing do not assure a profit or protect against loss. There may be a potential tax implication with a rebalancing strategy. Please consult your tax advisor before implementing such a strategy.

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 by exchanging a concentrated stock position for fund shares without triggering a taxable event. These funds are available only to qualified investors and may only be offered by Financial Advisors who are qualified to sell alternative investments.

• Before investing, investors should consider the following:
• Dividends are pooled • Investors may forfeit their stock voting rights
• Investment may be illiquid for several years • Investments may be leveraged or contain derivatives • Significant early redemption fees may apply • Changes to the U.S. tax code, which could be retroactive (potentially disallowing the favorable tax treatment of exchange funds) • Investment risk and potential loss of principal

Certain strategies managed or sub-advised by us or our affiliates, including but not limited to Morgan Stanley Investment Management ("MSIM"), Eaton Vance Management ("EVM"), Parametric Portfolio Associates® LLC ("Parametric"), and its investment affiliates, may be included in your account. Please contact your Morgan Stanley team and/or see the applicable Form ADV, which can be accessed at http://www.morganstanley.com/adv for more information about additional disclosures applicable to affiliated products that could be included in your account.

Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Smith Barney LLC and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank.

Nondiversification: For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. Portfolios that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors.

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. This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley Smith Barney LLC ("Morgan Stanley") recommends that investors independently evaluate particular investments and strategies and encourages investors to seek the advice of a Morgan Stanley Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Direct Indexing may adversely impact account performance. There is no guarantee that Direct indexing will produce the desired tax results.

HOPES Tool Disclosures

The projections or other information generated by HOPES for Concentrated Equity Tool regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. The HOPES Scenarios consider a discrete universe of investments in the analysis (those comprising the HOPES acrostic), and the determination of securities to select is based on that universe, in conjunction with client input; such selectivity is premised on the potential for the HOPES multi-strategy allocations to assist clients who hold a concentrated equity position. However, other investments not considered may have characteristics similar or superior to those being analyzed.

Portfolio Risk Platform and Award Disclosures

The Portfolio Analysis report ("Report") is generated by Morgan Stanley Smith Barney LLC's ("Morgan Stanley") Portfolio Risk Platform. The assumptions used in the Report incorporate portfolio risk and scenario analysis employed by BlackRock Solutions ("BRS"), a financial technology and risk analytics provider that is independent of Morgan Stanley. BRS' role is limited to providing risk analytics to Morgan Stanley, and BRS is not acting as a broker-dealer or investment adviser nor does it provide investment advice with respect to the Report. Morgan Stanley has validated and adopted the analytical conclusions of these risk models. **PRP Award:** The American Financial Technology Award's Best Risk Management Initiative was awarded in 2022. This ranking was determined based on an evaluation process conducted by Waters Technology during the period from 02/09/22 – 04/11/22. Neither Morgan Stanley Smith Barney LLC nor its Financial Advisors or Private Wealth Advisors paid a fee to Waters Technology. This ranking is based on an evaluation led by Waters Technology's editorial team, judging the content and quality of submissions. Rankings are based on the opinions of Waters Technology and this award may not be representative of any one client's experience. This Award is not indicative of the Financial Advisor's future performance. Morgan Stanley Smith Barney LLC is not affiliated with Waters Technology. For more information, see https://www.aftas.org/.

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: http://www.theocc.com/about/publications/publication-listing.jsp.

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

Prepaid 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. There are a number of critically important considerations that your Financial Advisor should keep in mind when engaging with clients on OTC Derivative products. The Firm requires mandatory OTC Derivatives training covering the prohibition on solicitation/recommendation and other restrictions before discussing "O" strategies with any client. Highlights of these considerations include:

- OTC Derivative products are offered on the ISG platform which restricts your Advisor's ability, as an MSSB employee, to engage with clients on this product. CFTC regulated Derivatives, which include swaps on equity indices or baskets of 10 or more equities, or interest rates, commodities, currencies are subject to a strict reverse inquiry only policy. Currently, OTC Equity Derivatives products, which include equity index and single equity options, swaps on single equities and baskets of up to 9 equities, collars, pre-paid forwards, and covered calls are also only available on a reverse inquiry basis ("OTC Equity Derivatives"). Please note that the Firm will be expanding its OTC Equity Derivatives customer support model, to allow the availability of such products to be introduced to clients. Until such time, the reverse inquiry only policy must be observed.
- It is critical that Financial Advisors refrain from engaging in substantive conversations with a client about any OTC Derivatives product, including discussing any transaction terms. Only the dual registered members of the WM OTC Derivatives Desk are qualified from a regulatory perspective to go beyond introducing the availability of the OTC Equity Derivatives Products or provide transaction terms for any OTC Derivative product. Also, for various regulatory and firm governance reasons, you are prohibited from recommending any OTC Derivative products.

- Finally, you should keep in mind that you may be subject to contractual restrictions or regulatory obligation with respect to a client's Concentrated Equity position, including concerning the use of Material Non-Public Information. If you are an "affiliate", your Financial Advisor must consult with the Equity Planning and Education Center team or Executive Financial Services before transacting with any such client.

Your Financial Advisor knows there are a number of critically important considerations to keep in mind when engaging with clients on OTC Derivative products. The Firm requires mandatory OTC Derivatives training covering the prohibition on solicitation/recommendation and other restrictions before discussing "O" strategies with any client. Highlights of these considerations include:

- OTC Derivative products are offered on the ISG platform which restricts your Financial Advisor's ability, as an MSSB employee, to engage with clients on this product. CFTC regulated Derivatives, which include swaps on equity indices or baskets of 10 or more equities, or interest rates, commodities, currencies are subject to a strict reverse inquiry only policy. Currently, OTC Equity Derivatives products, which include equity index and single equity options, swaps on single equities and baskets of up to 9 equities, collars, pre-paid forwards, and covered calls are also only available on a reverse inquiry basis ("OTC Equity Derivatives"). Please note that the Firm will be expanding its OTC Equity Derivatives customer support model, to allow the availability of such products to be introduced to clients. Until such time, the reverse inquiry only policy must be observed.

- It is critical that your Financial Advisor refrain from engaging in substantive conversations with a client about any OTC Derivatives product, including discussing any transaction terms. Only the dual registered members of the WM OTC Derivatives Desk are qualified from a regulatory perspective to go beyond introducing the availability of the OTC Equity Derivatives Products or provide transaction terms for any OTC Derivative product. Also, for various regulatory and firm governance reasons, your Financial Advisor is prohibited from recommending any OTC Derivative products.

- Finally, your Financial Advisor should keep in mind that a client may be subject to contractual restrictions or regulatory obligation with respect to their Concentrated Equity position, including concerning the use of Material Non-Public Information. If a client is an "affiliate", your Financial Advisor must consult with the Equity Planning and Education Center team or Executive Financial Services before transacting with any such client.

Morgan Stanley