

Tax Management Services for Select UMA[®]

Seeking to Improve After-Tax Returns With Unified Managed Accounts

Professional investment managers seek to beat their benchmarks and maximize returns by taking advantage of prevailing market conditions, often with little or no regard for tax consequences. Mutual funds and separately managed accounts often exhibit portfolio turnover as positions are bought and sold in an effort to “lock-in profits” and generate gains, some of which are short-term and taxable at rates as high as 37%, or more.

For investors seeking professional investment management and diversification with an awareness to mitigate tax liability, a unified managed account with optional Tax Management Services may offer a viable solution.

HOW MUCH OF YOUR RETURNS ARE YOU LOSING TO TAXES?¹

Short-term gains on assets held for less than one year are taxed at ordinary income rates:

| MARGINAL TAX RATE | SINGLE | MARRIED FILING JOINTLY |
|-------------------|---------------------|------------------------|
| 22% | \$44,725-\$95,375 | \$89,450-\$190,750 |
| 24% | \$95,375-\$182,100 | \$190,750-\$364,200 |
| 32% | \$182,100-\$231,250 | \$364,200-\$462,500 |
| 35% | \$231,250-\$578,125 | \$462,500-\$693,750 |
| 37% | \$578,125 | \$693,750 |

2023 CAPITAL GAINS TAX RATES¹

Dividends and long-term gains on assets held for more than one year are taxed at:

| LONG-TERM CAPITAL GAINS RATE | SINGLE TAXPAYERS | MARRIED FILING JOINTLY | HEAD OF HOUSEHOLD | MARRIED FILING SEPARATELY |
|------------------------------|--|--|--|--|
| 0% | \$44,625 or less | \$89,250 or less | \$59,750 or less | \$44,425 or less |
| 15% | More than \$44,425 and less than \$492,300 | More than \$89,250 and less than \$553,850 | More than \$59,750 and less than \$523,050 | More than \$44,625 and less than \$276,900 |
| 20% | \$492,300 or more | \$553,850 or more | \$523,050 or more | \$276,900 or more |

State and local tax rates vary and may add to the federal rates shown above. In addition, certain net investment income is subject to an additional 3.8% surtax (often referred to as the Medicare surtax) to the extent your modified adjusted gross income exceeds specific thresholds. Morgan Stanley is not a tax advisor. Consult your tax professional for details.

Tax Management Services in Action

By choosing the Tax Management program of Select UMA, you may benefit from the oversight and coordination of programmatic account activities. Specifically, the program seeks to ensure that the following measures are taken to reduce your current tax liability and attempts to enhance your after-tax return in accordance with your Tax Management Services agreement:



TAX-EFFICIENT TRADING. Over the years, your portfolio managers have purchased the shares of a specific company multiple times. Now one of the portfolio managers wishes to take some profits, or reduce risk, by liquidating part of the position. Which shares should the manager sell?

Some more traditional managed account platforms may employ a First-In, First-Out (FIFO) methodology and sell the lot that was purchased first. With Select UMA Tax Managed accounts, the Tax Management process uses a “best tax outcome” methodology instead of FIFO which allows you to keep lower cost holdings in your account. When a portfolio manager makes changes, or if you submit a service request or portfolio change, the overlay manager will look to sell lots at a loss first.



CERTAIN WASH SALE ADHERENCES. Your *large-cap growth* investment manager sells a stock at a loss. A few days later, your *large-cap value* investment manager buys the same stock because he or she believes that it is now undervalued in the marketplace.

You have just run afoul of IRS wash sale rules. A wash sale occurs when you purchase a stock within 30 days **before or after** selling it. Any loss realized from the sale is therefore deferred for tax purposes.

Within a Select UMA Tax Managed account, the program takes precautions to help you avoid this all-too-common scenario. When a stock is sold for a loss, that security will be blocked from purchase for 30 days and only eligible for purchase on the 31st day after the sale. If you have more than one equity SMA investment manager in the UMA, that security will be blocked for all investment managers. While the program takes these precautions when tax loss harvesting in your account, a disallowed loss is still possible. For example, if a security is purchased by one manager and subsequently sold by another within a 31 day period resulting in a realized loss. This portion of the wash sale rule will be allowed in an effort to allow managers to reduce risk in your portfolio, if necessary.



TAX LOSS HARVESTING. The end of the year has become known as “tax swap season” for many investors. It’s the time when they search their portfolios for losses that can be used to offset the gains they realized earlier in the year, potentially decreasing the taxes they owe.

With a Select UMA Tax Managed account, “tax swap season” is typically ongoing throughout the year. Investors enrolled in Select UMA Tax Management have the option to personalize the tax loss harvesting process within their account, both on a scheduled and/or opportunistic basis. For example, scheduled active tax loss harvesting can be customized to occur monthly, quarterly, or less frequently to meet the unique tax needs of the client. Opportunistic active tax loss harvesting can be tailored to occur during different times, based on certain preferences designed by the client. This allows the account to take advantage of market conditions actively throughout the year and not just at year-end.

Harvesting Tax Savings

Realizing losses can pay off at tax time by offsetting gains throughout the year and generating excess losses to be carried forward for use in subsequent years.

| USE | TO OFFSET |
|--|---|
| Short-Term Losses | Short-Term Gains |
| Long-Term Losses | Long-Term Gains |
| Leftover Losses, either Short or Long Term | Leftover Gains, either Short or Long Term |
| Remaining Losses | Excess losses that can be used to offset offset \$3,000 of ordinary income per year and/or carried forward for use in subsequent years. |

FOR EXAMPLE



Your UMA portfolio has generated \$25,000 in realized gains.

Within your entire portfolio several positions are identified with unrealized losses totaling **\$25,000.**



Losing Positions are sold, thereby providing you with losses to offset your gains.



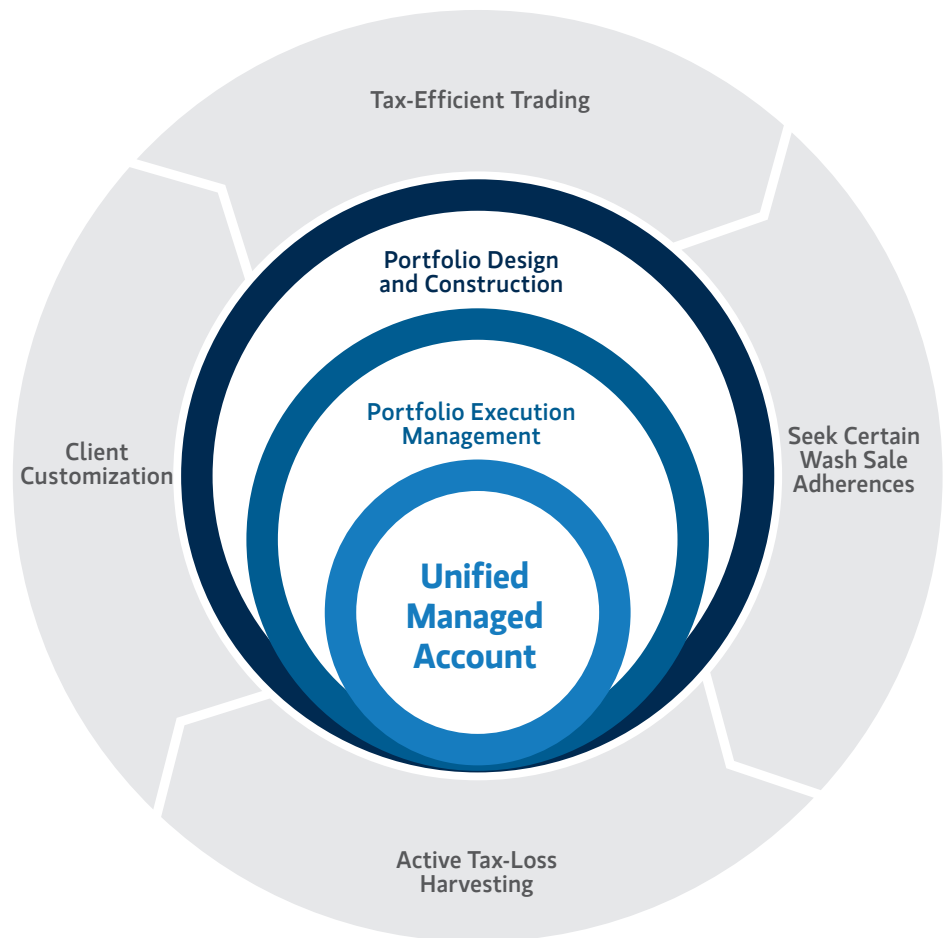
The proceeds from the sale of the losing positions are invested in exchange-traded funds (ETFs) so you will still have market exposure and avoid sacrificing potential growth.



After the **30-day** wash sale period elapses, the ETFs are sold and the positions sold for a loss are repurchased, unless the securities are no longer held in the investment manager's model.

Tax Management Investment Process

Consulting Group's Tax Management Services team manages the program's tax-aware investment process for Select UMA clients with specialized tax needs. The primary offering is a proprietary investment program that applies a variety of tax-aware strategies designed to minimize current tax gains and potentially enhance after-tax returns.



Set Specific Limits on Gains, Taxes and Losses

Investors who are especially tax-sensitive can set limits on taxes and/or realized gains and losses in their Select UMA account. For example, imagine you wish to realize no more than \$50,000 in gains this year. When your realized gains reach this amount, the program will seek to prevent any sales your portfolio managers might initiate that would increase your gains further. At the same time, unrealized losses might be used to offset gains realized from selling additional holdings.

Additionally, Tax Management will look to tax harvest quarterly and opportunistically, in client accounts with realized gains that can be offset with eligible losses**. Our objective is to preserve your investment returns by minimizing current tax liability with a tax-neutral gain loss where possible. Investors may also desire to set personalized client preferences for tax loss harvesting such as a target on the losses realized in their Select UMA when tax loss harvesting occurs, to be used to offset realized gains held elsewhere. In this circumstance, the client can set a loss target of -\$50,000 for example, in losses, for each time tax loss harvesting occurs. Losses will be taken throughout the year to try to achieve that loss target, selling holdings for losses where possible to exceed the offset of realized net gains by -\$50,000 in net losses. Lastly, the program also includes an opportunistic tax loss harvesting feature designed to trigger when 10% of an accounts market value in eligible losses have accumulated, losses will potentially be taken to offset realized gains.** This opportunistic feature can also be personalized by the client to fit their specific tax loss needs as well as triggered at customized percentage thresholds set by the client.

If no personalized preferences are chosen by the investor, the tax loss preference of the program is a net -\$3,000 by the end of every year as the program seeks to minimize portfolio turnover while targeting net realized losses.

This customized approach offers a variety of other options:

TRANSITIONING HOLDINGS TO SELECT UMA. Many clients establish a Select UMA account with existing securities. If you set a tax or gain limit for the account, the program systematically monitors that limit. Non-model or overweight positions left in the account will only be sold if losses can be realized to offset the gains. By setting this tax or gain limit, the account may be restricted from selling and buying securities that the money manager adds or takes away from its model. This capability allows the client to realize the gains over multiple tax years, rather than all at once.

LIQUIDATING CONCENTRATED POSITIONS. Many of our clients realize that an inordinate amount of their overall wealth is tied up in the stock of their employer. They realize they should diversify their holdings, but often, they are reluctant to do so because of tax implications. The clients confirm what an acceptable realized gain limit for the year which helps fund their Select UMA

with the concentrated position, cash and other holdings. The concentrated position is sold gradually with gains matched against losses realized by selling other positions. In fact, when the realized gains limit is reached, further delay in selling concentrated shares may happen until offsetting losses are realized. Clients employing this approach can diversify their holdings over time in an effort to avoid unexpected tax consequences.

** See ADV for default tax loss harvesting thresholds and frequency.

** See the program's supplemental ADV brochure, Exhibit A Terms & Conditions, for more detail regarding program defaults and tax loss harvesting.

Advisory relationships may not be appropriate in certain situations.



REQUIREMENTS FOR TAX MANAGEMENT SERVICES

Tax Management Services are offered in a Unified Managed Account that meets the following criteria:

Account must be taxable and meet investment product minimums (e.g. SMAs, Firm Discretion, etc.).

Certain tax-inefficient investment products may be discouraged from use.

Custom, Strategic, Tactical Portfolios and all discretion levels are eligible.

Your Morgan Stanley Financial Advisor will be happy to provide additional information about these services.

What Are Unified Managed Accounts?

As an experienced investor, you may participate in a number of professionally managed investments, including mutual funds, exchange-traded funds and separately managed accounts. Often, these vehicles are housed in multiple accounts, each of which generates its own statements, trade confirmations and performance reports.



Multiple accounts can also mean multiple fees, overlapping securities positions and fragmented asset allocations that don't consider your overall objectives, time frame and risk tolerance.

A UNIFIED MANAGED ACCOUNT (UMA), as its name implies, is an account in which you can maintain numerous investments in a convenient, comprehensive portfolio. Morgan Stanley Select UMA® goes several steps further by offering a Tax Management Services option.

How Do Unified Managed Accounts Work?

Morgan Stanley has created an open architecture platform where investors can harness intellectual capital from hundreds of sources, both inside and outside of the firm, adding multiple layers of professional management for each portfolio.

Depending on your objectives, time frame and risk tolerance, you or your Financial Advisor may choose an appropriate allocation model and implement it with the numerous mutual funds, exchange-traded funds and separately managed accounts available to you. If you prefer, you can design your own allocation across the asset classes and investment categories you deem necessary to reach your objectives. With any Select UMA account, you obtain the services of an overlay portfolio manager and can benefit from a number of immediate advantages:

- A single comprehensive asset allocation that guides portfolio structure.
- Consolidated performance reporting that helps you evaluate not only individual investments, but also your entire portfolio.
- A single monthly statement and year-end tax summary to simplify record-keeping and facilitate tax preparation.
- Disciplined rebalancing that adjusts your portfolio for sizable allocation shifts and returns that allocation to its original proportions.
- Account oversight that watches for overlapping positions in your UMA investments and helps you avoid overexposure to specific securities, industries and economic sectors.
- Optional Tax Management to help you preserve investment returns and potentially reduce current tax liability.

Experience Matters

Morgan Stanley Select UMA® was developed by the firm's Consulting Group, an acknowledged leader in investment manager analysis, selection and monitoring for over 45 years. Most investment managers chosen for Select UMA have met the firm's demanding standards of performance, style consistency and organizational depth and stability.

Our Select UMA Tax Management Services team is comprised of professionals with extensive asset management and portfolio construction experience. We were among the first in the industry to combine tax management with UMAs, and remain committed to helping our clients improve their investment return potential by decreasing their current tax liability.

¹The tax information herein is based on laws in effect as of November 17, 2022, for use in filing 2023 tax returns in 2024.

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.

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Smith Barney LLC Financial Advisors or Private Wealth Advisors do not provide tax or legal advice. Clients should consult their tax advisor for

matters involving taxation and tax planning, and their attorney for matters involving trust and estate planning and other legal matters.

Investing in the markets entails the risk of market volatility. The value of all types of securities, including mutual funds and exchange-traded funds, may increase or decrease over varying time periods.

Diversification and asset allocation do not assure a profit or protect against loss. Past performance is not a guarantee of future results.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Please consult your tax advisor before implementing such a strategy.

Please see the Morgan Stanley Smith Barney LLC Select UMA Form ADV Wrap Fee Brochure (the "Morgan Stanley ADV") for more information on the Select UMA Investment Advisory Program. The Morgan Stanley ADV is online at www.morganstanley.com/ADV.

Select UMA® is a registered service mark of Morgan Stanley Smith Barney LLC.