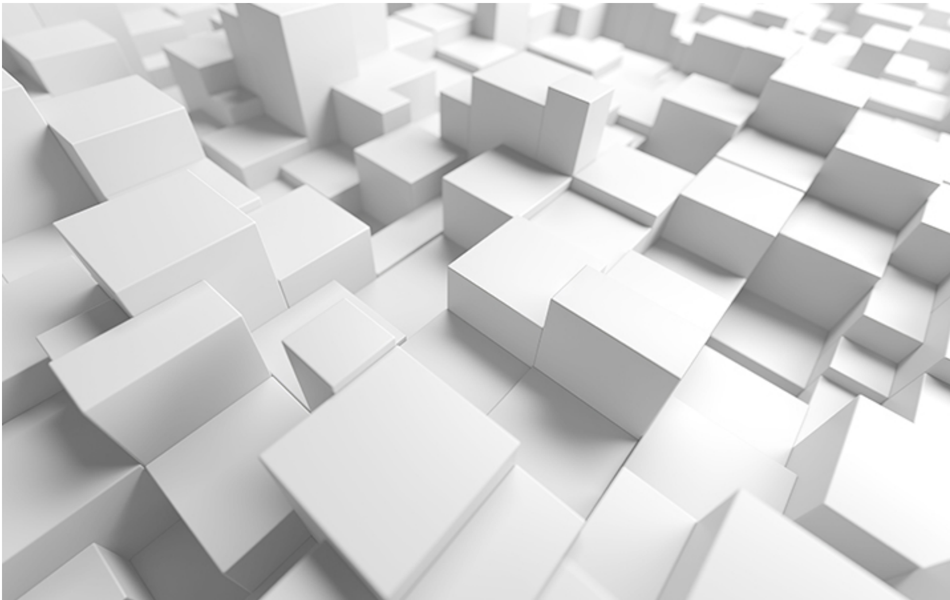
Morgan Stanley

WEALTH MANAGEMENT

PRIMER

Investing with Impact | May 05, 2026

Employee Ownership Investing: Supporting Wealth Creation



This primer was published by Morgan Stanley Wealth Management Investing with Impact in collaboration with the Morgan Stanley Global Sustainability Office.

Approximately 2.9 million privately held companies—representing over $10 trillion in business assets—are owned by individuals approaching retirement in the US.[1] Employee ownership has emerged as an increasingly viable succession solution that can support employee wealth creation, preserve company legacy and foster long-term value creation for transitioning business owners.

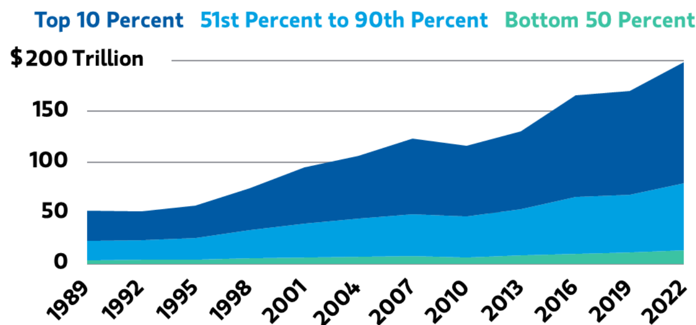
Employee ownership (EO) refers to structures in which a broad base of employees has a financial stake in a company through models such as employee stock ownership plans (ESOPs), worker cooperatives (worker co-ops) and employee ownership trusts (EOTs). For investors, employee ownership models present an opportunity to generate returns while contributing to broader wealth creation by expanding access to capital ownership across the workforce.

Morgan Stanley Wealth Management is the trade name of Morgan Stanley Smith Barney LLC, a registered broker-dealer in the United States. This material has been prepared for informational purposes only and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Past performance is not necessarily a guide to future performance. Please refer to important information, disclosures and qualifications at the end of this material.

The Case for Employee Ownership

Wealth inequality in the US has grown over the past several decades. While total family wealth in the US has nearly quadrupled since 1989, those gains have been disproportionately concentrated among higher-income households. In 2022, the wealthiest 10% of families held 60% of all wealth, while the bottom 50% held just 6% (see Exhibit 1).[2] Access to traditional wealth-building tools also remains uneven. The most recent data from the US Census Bureau's Survey on Income and Program Participation (SIPP) indicates that 42% of full-time employees aged 18 to 65 do not have access to a workplace retirement plan,[3] and a 2024 AARP survey finds that one in five individuals over 50 do not have retirement savings.[4]

Exhibit 1: Wealth Inequality in the US: Distribution of Family Wealth by Wealth Group



Source: Congressional Budget Office as of October 2022

In response to these trends, efforts to increase broad-based asset ownership have gained momentum. Alongside the expansion of homeownership and capital market participation for low- to moderate-income individuals, employee ownership has emerged as a scalable approach to expanding access to wealth-building opportunities across the workforce.

Overview of Employee Ownership Models

Employee ownership refers to a company being owned, directly or indirectly, in part or in whole, by a broad base of employees. For purposes of this primer, equity compensation limited to company executives is not considered employee ownership. There are three main types of employee ownership models: employee stock ownership plans, worker cooperatives and employee ownership trusts (see Exhibit 2).

Exhibit 2: Overview of Three Key Employee Ownership Models

EO Structures	Definition
Employee Stock Ownership Plans (ESOP)	A **qualified retirement plan** that holds company shares on behalf of employees, with stock allocated to individual tax-deferred accounts that vest over time and may be cashed out upon exit.[5]
Employee Ownership Trusts (EOT)	A **legal trust*** that holds company shares on behalf of employees, typically providing profit-sharing rather than individual equity ownership.[6]
Worker Cooperatives (Worker co-ops)	A **cooperative enterprise** owned by the entire workforce of a company through fixed-value shares, commonly governed by a "one worker, one vote" principle.[7]

*Note: An EOT is recognized as a formal structure codified through legislation in the UK and Canada. In the US, an EOT is a type of Perpetual Purpose Trust (PPT), where the purpose of the trust includes the well-being of the company's employees.[8]
Source: Morgan Stanley Wealth Management Investing with Impact

Partial Broad-Based Employee Benefits

Beyond these three formalized models, a range of other mechanisms provide "partial" financial benefits to employees approximating ownership—including restricted stock units (RSUs), profit sharing, broad-based equity grants and phantom stock.[9] These programs can deliver meaningful outcomes for employees and help align employee interests with business success, but they typically only provide a partial financial benefit, and participation is often limited to senior executives or select employee groups. As a result, long-term employee wealth creation and employee voice tend to be less significant relative to the three models described above.

The Benefits of Employee Ownership

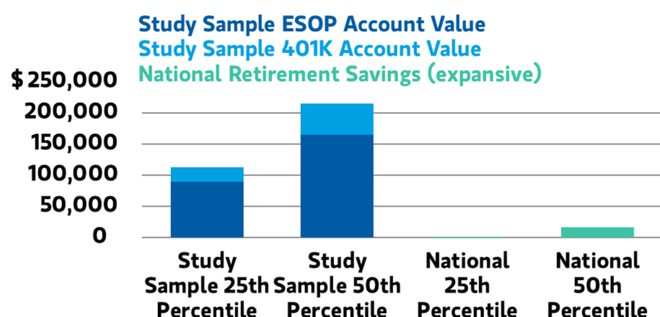
Employee ownership has the potential to generate positive outcomes for employees, companies and the broader economy.

Asset Building

A study from the National Center for Employee Ownership found that employees participating in ESOPs nearly double their retirement savings compared with their nonowner peers.[10] Similarly, a study conducted by Harvard Business Review found that if 30% of all private US companies implemented ESOPs by transferring a 10% ownership stake from selling shareholders to employees, the average wealth of the bottom 50% of Americans would quadruple, from approximately $24,000 to $96,000.[11]

These potential gains are especially significant for low-to-moderate income workers. Rutgers University, a leader in employee ownership research, found that in 2019 low-income employee-owners had a median ESOP balance of approximately $165,000, nearly ten times the national median savings of $17,000 (see Exhibit 3).[12] Employee ownership can also help address gender and racial wealth gaps.[13]

Exhibit 3: Low-to Moderate Income Employee-Owners Have Significantly Larger Savings Than Other Low-to-Moderate Income Workers



Note: Sample included 92 low- to moderate-income employees at companies with ESOPs as included in the study conducted by the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University.
Source: Rutgers School of Management and Labor Relations as of March 2019

Company Performance

Employee ownership is not just a tool for employee wealth-building, it is also linked to improved business outcomes.[14] By aligning employee incentives with company performance, employee ownership has been proved to increase engagement, reduce turnover and improve productivity—factors that often enhance profitability.[15,16] Studies estimate average company productivity gains of 4%–5% within a year of ESOP adoption, with sustained gains over time.[17]

These outcomes are driven in part by stronger employee engagement and workplace culture. Employee ownership models can foster a greater sense of participation and accountability, addressing a broader engagement gap—today, only 31% of US employees are considered "engaged" at work, while 17% are considered "actively disengaged."[18]

Broad Economic Impact

Beyond company-level performance, employee ownership can generate valuable co-benefits at local and national levels. For example, employee ownership has been linked to increased civic engagement in communities, including 50% higher rates of volunteerism among worker co-op owners and higher voter turnout of ESOP participants.[19] By preserving domestic ownership, employee ownership also helps to ensure that businesses remain under local control rather than that of foreign buyers. Recognized as a strategy for strengthening national security, it is especially important in industries where control over assets, data or infrastructure has national security implications.[20]

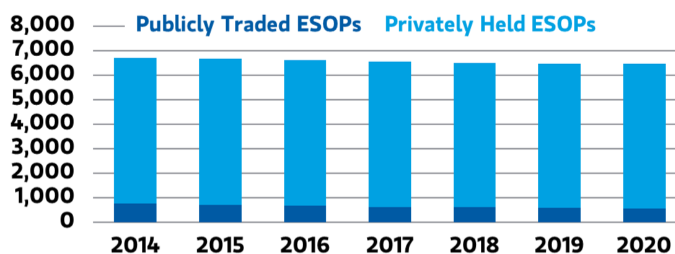
Sizing the Employee Ownership Market

In our view, employee ownership structures remain underutilized in the US, despite their demonstrated benefits for employees and companies. Fewer than 9% of US private-sector workers currently participate in employee ownership programs, indicating opportunity for expansion.[21]

A likely driver of future growth is demographics. One in two privately held US businesses—or 2.9 million companies representing over $10 trillion in business assets—is owned by individuals aged 55 or older.[22] As these owners approach retirement, many will seek succession solutions, creating a significant pipeline of potential employee ownership transactions.

ESOPs represent the most established employee ownership model in the US, with around 6,600 ESOPs covering 15.1 million participants and holding over $2.0 trillion in assets.[23] Despite significant tax incentives, growth has remained relatively flat, with an average of 269 new ESOPs formed each year between 2019 and 2023 (see Exhibit 4).[24] However, the average ESOP size has grown, with more participants per plan.[25]

Exhibit 4: ESOP Adoption in the US has Remained Relatively Stagnant



Source: NCEO as of January 2026

Worker co-ops and EOTs are less prevalent in the US today. An estimated 820 worker co-ops employ roughly 13,500 workers in the US, while EOTs have been adopted by only about 32 companies (see Exhibit 5).[26] By contrast, EOTs are the most popular employee ownership model in the United Kingdom (UK), representing 1 in 20 of all private company sales. We attribute this footprint to the UK's passage of supportive EOT legislation in 2014.[27,28]

Exhibit 5: Overview of US Employee Ownership Model Deployment and Regulatory Support

EO Model	Approximate Number of Structures in the US	US Legislative and Regulatory Environment
ESOP	6,500	Supportive
EOT	30	Varies by state
Worker Co-Op	1,000	Varies by state

Source: NCEO as of January 2026, US Department of Labor as of Feb. 20, 2026

Other forms of partial employee benefits are gaining traction as mainstream private equity investors increasingly implement equity compensation mechanisms to allocate a portion of the business's success to employees.[29] An estimated 11 million employees participate in different combinations of equity compensation plans.[30]

Policy Tailwinds

Employee ownership has a long history in the US, supported by a well-established policy framework that has evolved over several decades. ESOPs were formally recognized under the Employee Retirement Income Security Act (ERISA) of 1974, establishing a tax-advantaged structure for broad-based employee ownership.

Subsequent legislation has further incentivized adoption—including via the Section 1042 rollover, which allows business owners to defer capital gains taxes when selling to an ESOP. These policies have played a key role in supporting ownership transitions and expanding employee participation in capital ownership.

More recently, employee ownership has gained renewed bipartisan attention. Federal and state initiatives are increasingly focused on expanding access to capital, technical assistance and education to support ownership transitions. Proposed legislation, such as the American Ownership and Resilience Act (AORA), aims to further scale the ecosystem by facilitating private investment in employee ownership conversions.

Continued policy support will be an important factor in determining the pace and scale of adoption, particularly as a growing number of business owners seek succession solutions.

Barriers to Adoption and Scale

Despite the significant opportunity, broader adoption of employee ownership has been constrained by several factors, including limited awareness, complexity of implementation and access to capital.[31] Addressing these barriers can be key to scaling the employee ownership market.

Awareness and Expertise: Many business owners remain unfamiliar with employee ownership as a viable exit option, often defaulting to traditional sale pathways such as private equity or strategic buyers.[32] Limited awareness also extends to key intermediaries, including lawyers, bankers and wealth advisors, which can further restrict adoption.[33]

Complexity and Execution: Certain employee ownership models, particularly ESOPs, involve regulatory, legal and administrative complexity, increasing the cost and time required to execute transactions. While alternative structures such as EOTs and worker co-ops may be simpler, they often lack the same level of supporting infrastructure and tax incentives in the US.

Financing Constraints: Businesses often need outside financing to implement employee ownership across multiple stages, including company formation, ownership transitions and the ongoing growth of employee-owned firms. This can be a key barrier, particularly for ownership transitions, as senior lenders typically only finance a portion of the debt, requiring the company to layer additional sources of capital—including seller financing—to fully fund the transaction. As such, raising sufficient capital to finance ownership transitions remains a significant constraint for employee ownership model adoption (see Financing Employee Ownership section).

Comparing Employee Ownership Models

While ESOPs, EOTs and worker co-ops share the goal of broad-based employee ownership, they differ meaningfully in terms of ownership structure, employee economic participation and company governance.

Transaction Structuring

- **ESOPs** are typically established and financed in an ownership conversion process. To set up an ESOP, a company creates an employee stock ownership trust, which is managed by a trustee. The trustee, rather than employees directly, buys, holds and sells the shares in the trust's name for the benefit of the employees—making the employees the beneficial owners of the shares. An ESOP trustee will engage with independent appraisers and attorneys to value and negotiate the price of the company and will then identify the source(s) of capital that will be used to purchase shares.[34] Either the transaction can be self-financed by the company's cash and shares,[35] or the ESOP trust can borrow money from third-party capital providers and/or selling shareholders to acquire company shares.

- **EOTs** are also established as a conversion of ownership to employees. To set up an EOT, the selling owner establishes a perpetual purpose trust—with the explicit purpose of benefiting the employees—to hold the company shares on behalf of employees.[36] The owner then transfers their interest in the company to the trust. Similar to ESOPs, EOT conversions can be financed with the company's cash, or the trust can borrow from the seller and/or third-party capital providers, secured by the company's assets.
- **Worker co-ops** can be established as a start-up transaction for a newly created business or as a conversion of ownership to employees for an existing company.[37] Co-op conversions—often called employee buy-outs—are primarily established by relying on self-financing via members' retained equity and/or the direct purchase of cooperative shares by employees. They can also be partially financed with loans from specialized cooperative lenders and community development financial institutions (CDFIs).[38]

Comparison of Other Key Elements

Beyond considering how employee ownership transactions are structured, it's important to understand additional differences and their associated trade-offs to assess how each model operates in practice (see Exhibit 6).

In summary, while each of these three models can support meaningful employee wealth creation, appropriateness varies based on company size, financial profile and objectives.

- **ESOPs** are generally more appropriate for larger, established companies with stable cash flows, where tax efficiency and long-term wealth accumulation are key priorities.
- **EOTs** may be an ideal fit for companies seeking a simpler structure with an emphasis on long-term ownership and mission preservation.
- **Worker co-ops** are often most appropriate for smaller businesses or those prioritizing employee control and alignment, though they may face greater challenges in scaling and accessing capital.

Exhibit 6: Comparison of Employee Ownership Models

Dimension	ESOPs	EOTs	Worker CO-Ops
Wealth Creation	High (retirement benefit): Long-term benefit as equity can appreciate over time	Moderate (profit-sharing): Short-term benefit during tenure at company	Moderate (profit-sharing): Short-term benefit during tenure at company
Employee Pay-Out	Receive value of vested shares as lump sum or equal payments	Receive percent of annual profits	Receive annual patronage dividends
Employee Investment	None	None	Required purchase of membership shares
Employee Influence	Low: Trustee represents employees; employees typically do not have direct voting rights	Moderate: Trustee represents employees; employees typically have more voice in company actions	High: Strongest employee control; "one worker = one vote" with board often employee-elected
Company Mission Preservation	Weak: Can be sold to third parties; employee ownership not guaranteed long-term	Moderate: Long-term ownership held in trust for employees	Moderate: Strong mission protection; sale requires member approval
Tax Benefits (US)	Yes: Potentially significant tax benefits (capital gains deferral, company deductions, tax-deferred growth)	None: No dedicated tax incentives currently	Some tax benefits, but more limited than ESOPs
Complexity and Cost	High: may be appropriate for larger companies	Moderate: may be appropriate for mission-driven companies	Moderate: may be appropriate for smaller companies
Scalability of Model	Moderate: given tax incentives in US and risk-return characteristics	Low: given lack of tax incentives in the US	Low: due to "one-worker-one-vote" model

Source: Morgan Stanley Wealth Management Investing with Impact

Similarly, investors seeking exposure to employee ownership may prioritize different ownership models based on their risk-return objectives and the relative importance they place on scalability, wealth-building potential, employee influence and/or mission preservation. As a result, evaluating employee ownership opportunities requires thoughtful consideration of both financial characteristics and desired impact outcomes.

Financing Employee Ownership

Employee ownership transitions require capital across multiple stages, including company formation, ownership transition and ongoing firm growth. The most common path to employee ownership in the US is the transfer of ownership from selling owners to employees—converting an existing business to an employee-owned model.[39] These transactions are typically financed through a combination of seller financing; company cash flows; and external capital, including senior debt, subordinated or mezzanine debt, and in some cases, structured or preferred equity (see Exhibit 7).

Seller financing is central to many transactions. However, reliance on seller financing has led to limited transaction volume, given that selling owners often prefer to receive more cash up front, as they would in the event of a traditional sale to private equity or other buyers.[40] Employee ownership transactions also tend to involve longer repayment timelines, with selling owners typically receiving the full purchase price over a period of five to 10 years or longer.[41,42]

Access to external financing can also be challenging. Many companies may lack sufficient collateral or the ability to provide personal guarantees required to secure senior debt, making it more difficult to fully fund transactions without additional capital support.[43]

These dynamics create a meaningful opportunity for investors to provide flexible capital solutions that can help facilitate ownership transitions and expand the employee ownership market.

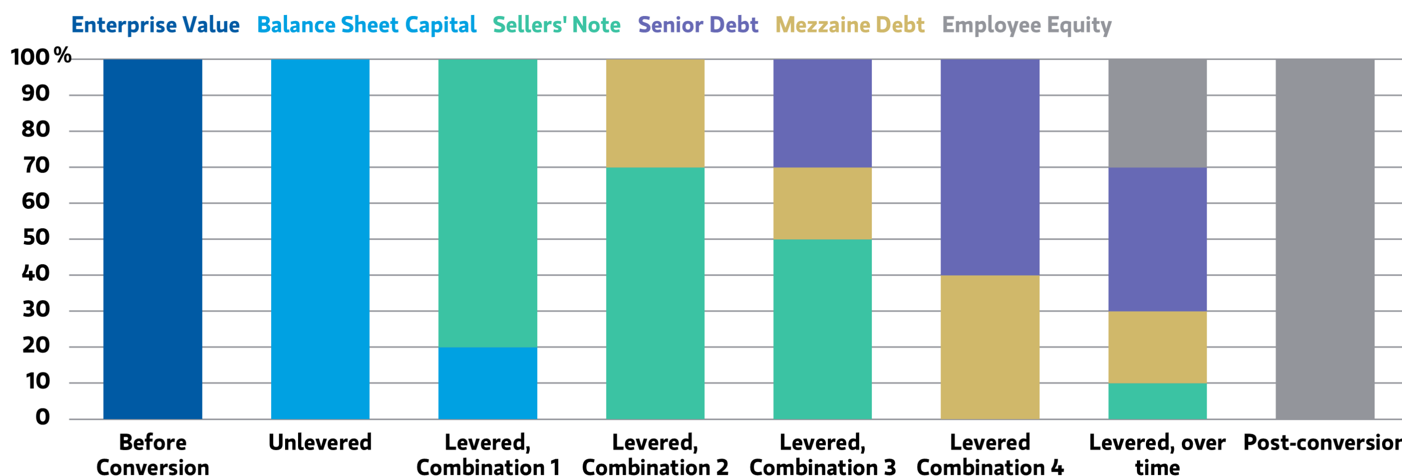
Employee Ownership Investment Opportunities

Investing in Employee Ownership Private Market Funds

Employee ownership investment opportunities are primarily concentrated in private markets, where capital plays a critical role in financing ownership transitions, supporting employee-owned companies and expanding the broader ecosystem. Pooled investment vehicles provide diversified exposure and access to specialized expertise in sourcing, structuring and executing employee ownership transactions.

- Private credit: A growing number of private credit funds focus on financing employee ownership transitions. These funds play a central role in originating deals, structuring transactions and providing supplemental support to help companies successfully implement ownership models and foster ownership culture.
- Private equity/venture capital: Traditional private equity/venture capital funds may 1) incorporate employee ownership as a pathway to liquidity by selling portfolio companies to employees as part of their exit strategy and/or 2) provide partial financial benefits to employees that approximate ownership, such as profit-sharing throughout their hold-period. This can be done across the entire portfolio or for select transactions. While still an emerging practice, this approach can expand the use of employee ownership in mainstream capital markets.

Exhibit 7: Example Combinations of Capital Used in Employee Ownership Conversions (Directional Percents)



Source: Morgan Stanley Investing with Impact, Apis & Heritage Capital Partners as of March 2025

Capitalizing Mission-Aligned Lenders

Investors may also support employee ownership indirectly by providing capital to financial institutions that originate and underwrite employee ownership transactions. Community development financial institutions and mission-aligned community banks play a critical role in financing smaller and more complex transactions, and additional capital can help expand their lending capacity.

Allocating to Employee-Owned Asset Managers

A complementary approach incorporates employee ownership through manager and strategy selection. Investors may allocate capital to employee-owned asset managers, where ownership and economic participation extend beyond senior leadership. This approach reflects how capital allocation decisions can influence who participates in wealth creation in the financial sector, while also potentially enhancing alignment, retention and long-term performance at the firm level.

Impact Measurement and Reporting

It is important for investors to understand how managers measure and report the outcomes associated with employee ownership investment strategies. In practice, this typically includes assessing how ownership translates into employee participation, wealth creation and broader workplace outcomes at the company level (see Exhibit 8).

Exhibit 8: Examples of Key Performance Indicators Leveraged by Employee Ownership Managers

Financial Metrics	Quality Job Metrics
Percentage of company owned by employees	Annual turnover rate
Number of employee owners	Number of board seats for employees
Amount of employee wages	Number of employee trainings held
Amount of management wages	Number of management trainings held
Wage growth year over year	Types of employee wellness programs
Profit sharing distributed annually	Types of benefits offered
ESOP retirement savings dollar amount	Percentage of employees participating in benefits
Growth in ESOP retirement savings	Employee satisfaction
Percentage of vested shares	Number of accident reports
Dollar amount of vested shares	Number of sick days
Increase in personal savings	Number of eligible PTO days

Source: Morgan Stanley Wealth Management Investing with Impact

Investors may also consider how employee ownership is reflected at the asset manager level, including ownership structure and participation within the firm. This may include evaluating portfolio exposure to strategies managed by employee-owned asset managers.

Conclusion

While investments in employee ownership are still nascent, opportunities for investors are increasing. Private market investments will be important to help address the current funding gap. Morgan Stanley is well positioned to help investors develop a disciplined plan for investing in employee ownership designed to help meet long-term financial goals while simultaneously helping to support wealth redistribution and creation.

Endnotes

[1]Curt Lyon and Julie Menter, *Investing in Employee Ownership: Overview for Mission-Oriented Investors* (Transform Finance, August 2024).

[2]Congressional Budget Office, "Trends in the Distribution of Family Wealth, 1989 to 2022," October 2024, https://www.cbo.gov/publication/60807#_idTextAnchor013.

[3]Sarah Eckhardt and Benjamin Glasner, "Who's Left Out of America's Retirement Savings System?," Economic Innovation Group, October 3, 2024, https://eig.org/whos-left-out-of-americas-retirement-savings-system/.

[4]Javier Monterosso and Maria Claudia Bonaparte, "Deep Dive into Employee Ownership: An Investor's Guide to Workforce Empowerment and Economic Equity," CapShift, July 30, 2024, https://capshift.com/explore/deep-dive-into-employee-ownership-an-investors-guide-to-workforce-empowerment-and-economic-equity/.

[5]Lyon and Menter, *Investing in Employee Ownership*

[6]Andrea Armeni, Curt Lyon, and Julie Menter, *Alternative Ownership Enterprises: An Introduction for Mission-Oriented Investors* (Transform Finance, November 2023).

[7]Lyon and Menter, *Investing in Employee Ownership*

[8]National Center for Employee Ownership, "An Introduction to Employee Ownership Trusts," https://www.nceo.org/what-is-employee-ownership/an-introduction-to-employee-ownership-trusts.

[9]Lyon and Menter, *Investing in Employee Ownership*

[10]Nancy Wiefek and Nathan Nicholson, *S Corporation ESOPs and Retirement Security* (National Center for Employee Ownership, December 2018), https://www.nceo.org/hubfs/assets/pdf/misc/NCEO-S-ESOPs-Retirement-2018.pdf.

[11]Thomas Dudley and Ethan Rouen, "The Big Benefits of Employee Ownership," *Harvard Business Review*, May 13, 2021, https://hbr.org/2021/05/the-big-benefits-of-employee-ownership.

[12]Rutgers University Institute for the Study of Employee Ownership and Profit Sharing, "Employee Ownership and Wealth Outcomes," March 2019, https://smlr.rutgers.edu/sites/default/files/Documents/Centers/Institute_Employee_Ownership/rutgerskelloggreport_april2019.pdf.

[13]Armeni, Lyon, and Menter, *Alternative Ownership Enterprises*

[14]National Center for Employee Ownership, "Research on Employee Ownership," https://www.nceo.org/research/research-findings-on-employee-ownership#firm-performance.

[15]Roy Swan, "Why Quality Jobs Are the Best Investment for Businesses & the Economy," *Observer*, February 5, 2025, https://observer.com/2025/02/why-quality-jobs-drive-profits-and-boost-the-economy/.

[16]Monterosso and Bonaparte, "Deep Dive into Employee Ownership"

[17]Rhokeun Park, Douglas Kruse, and James Sesil, "Does Employee Ownership Enhance Firm Survival?" in *Employee Participation, Firm Performance and Survival*, ed. Douglas Kruse (Bingley, UK: Emerald Group Publishing, 2004).

[18]Jim Harter, "U.S. Employee Engagement Declines From 2020 Peak," Gallup, August 21, 2025, https://www.gallup.com/workplace/701486/employee-engagement-declines-2020-peak.aspx.

[19]Lyon and Menter, *Investing in Employee Ownership*

[20]Matthew Mendelsohn, "Hands Off: Investing in Employee Ownership Can Ensure Canadian Businesses Stay Canadian," *ImpactAlpha*, April 16, 2025, https://impactalpha.com/hands-off-investing-in-employee-ownership-can-ensure-canadian-businesses-stay-canadian/.

[21]Monterosso and Bonaparte, "Deep Dive into Employee Ownership"

[22]Lyon and Menter, *Investing in Employee Ownership*

[23]National Center for Employee Ownership, "Employee Ownership by the Numbers," January 2026, https://www.nceo.org/research/employee-ownership-by-the-numbers.

[24]National Center for Employee Ownership, "Employee Ownership by the Numbers."

[25]National Center for Employee Ownership, "22% Increase in Closely Held Company ESOP Participants in Most Recent Data," February 12, 2024, https://www.nceo.org/employee-ownership-blog/22-increase-closely-held-company-esop-participants-most-recent-data.

[26]U.S. Department of Labor, *Employee Ownership Initiative Report to Congress*, February 20, 2026, https://beta.dol.gov/research-data/surveys-reports-publications/employee-ownership-initiative-report-congress.

[27]Corey Rosen, "Six Percent of UK Business Transfers Are Now to Employee Ownership Trusts," *Employee Ownership Blog* (National Center for Employee Ownership), September 25, 2024, https://www.nceo.org/employee-ownership-blog/six-percent-uk-business-transfers-are-now-employee-ownership-trusts.

[28]Institute of Chartered Accountants in England and Wales, "Increase in Founders and Owners Choosing Employee Ownership as a Succession Option," October 29, 2021, https://www.icaew.com/technical/practice-resources/exit-strategies/increase-in-founders-and-owners-choosing-employee-ownership-as-a-succession-option.

[29]Lyon and Menter, *Investing in Employee Ownership*

[30]Joseph Blasi and Douglas Kruse, *Employee Ownership and ESOPs: What We Know from Recent Research* (Aspen Institute, April 2025), https://www.aspeninstitute.org/wp-content/uploads/2025/05/Employee-Ownership-and-ESOPs-What-We-Know-from-Recent-Research.pdf.

[31]Monterosso and Bonaparte, "Deep Dive into Employee Ownership"

[32]Jared Bernstein, *Why Aren't There More? Assessing Barriers to ESOP Creation* (Employee-Owned S Corporations of America, January 2020), https://esca.us/wp-content/uploads/2021/01/Why-Arent-There-More-by-Jared-Bernstein-January-2020.pdf.

[33]Aspen Institute Economic Opportunities Program, "Democratizing Work: The Role, Opportunities, and Challenges of Worker Cooperatives in the US" (transcript), November 17, 2022, https://www.aspeninstitute.org/wp-content/uploads/2022/10/Democratizing-Work-The-Role-Opportunities-and-Challenges-of-Worker-Cooperatives-in-the-US-%E2%80%93-Transcript.pdf.

[34]Alex Mumblat, "ESOP Valuations Explained," CSG Partners, March 18, 2021, https://www.csgpartners.com/esop-resources-news/esop-valuations-explained.

[35]Armeni, Lyon, and Menter, *Alternative Ownership Enterprises*

[36]Lyon and Menter, *Investing in Employee Ownership*

[37]Lyon and Menter, *Investing in Employee Ownership*

[38]Armeni, Lyon, and Menter, *Alternative Ownership Enterprises*

[39]National Center for Employee Ownership, "Employee Stock Ownership Plan (ESOP) Facts," 2026, https://www.esop.org/.

[40]Alison Lingane and Julie Menter, *Ownership Lens Investing: Capitalizing the Employee Ownership Opportunity* (Ownership Capital Lab and Transform Finance, December 2024).

[41]American Operator, "Reviving the American Dream," 2026, https://www.americanoperator.com/.

[42]Venture 7 Advisors, "Selling a Business to Employees," 2026, https://www.venture7advisors.com/post/selling-a-business-to-employees.

[43]Lingane and Menter, *Ownership Lens Investing*

Disclosure Section

Important Disclosures

For index, indicator and survey definitions referenced in this report please visit the following: *https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions*

Risk Considerations

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

Investing in foreign markets entails risks not typically associated with domestic markets, such as currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, and the potential for political instability. These risks may be magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

Alternative investments may be either traditional alternative investment vehicles, such as hedge funds, fund of hedge funds, private equity, private real estate and managed futures or, non-traditional products such as mutual funds and exchange-traded funds that also seek alternative-like exposure but have significant differences from traditional alternative investments. The risks of traditional alternative investments may include: can be highly illiquid, speculative and not appropriate for all investors, loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices, 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 open-end mutual funds, and risks associated with the operations, personnel and processes of the manager. Non-traditional alternative strategy products may employ various investment strategies and techniques for both hedging and more speculative purposes such as short-selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. These investments are subject to the risks normally associated with debt instruments and also carry substantial additional risks. Investors could lose all or a substantial amount of their investment. These investments typically have higher fees or expenses than traditional investments.

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 differing and 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.

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

The majority of $25 and $1000 par **preferred securities** are "callable" meaning that the issuer may retire the securities at specific prices and dates prior to maturity. Interest/dividend payments on certain preferred issues may be deferred by the issuer for periods of up to 5 to 10 years, depending on the particular issue. The investor would still have income tax liability even though payments would not have been received. Price quoted is per $25 or $1,000 share, unless otherwise specified. Current yield is calculated by multiplying the coupon by par value divided by the market price.

Some $25 or $1000 par **preferred securities** are QDI (Qualified Dividend Income) eligible. Information on QDI eligibility is obtained from third party sources. The dividend income on QDI eligible preferreds qualifies for a reduced tax rate. Many traditional 'dividend paying' perpetual preferred securities (traditional preferreds with no maturity date) are QDI eligible. In order to qualify for the preferential tax treatment all qualifying preferred securities must be held by investors for a minimum period – 91 days during a 180 day window period, beginning 90 days before the ex-dividend date.

Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies.

Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

Annuities are long term tax-deferred retirement savings vehicles. Annuities are generally subject to surrender charges. A surrender charge is a penalty you have to pay if you sell or withdraw money from an annuity before it matures. The time before an annuity's maturity is called the

surrender period and usually lasts for several years after purchase. Surrender charges reduce the value of your annuity and its returns. Early withdrawals will reduce the death benefit and cash surrender value.

Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income and death benefit options.

Hyperlinks

This material may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the material refers to website material of Morgan Stanley Wealth Management, the firm has not reviewed the linked site. Equally, except to the extent to which the material refers to website material of Morgan Stanley Wealth Management, the firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of Morgan Stanley Wealth Management) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the material or the website of the firm shall be at your own risk and we shall have no liability arising out of, or in connection with, any such referenced website.

By providing links to third party websites or online publication(s) or article(s), Morgan Stanley Smith Barney LLC ("Morgan Stanley") is not implying an affiliation, sponsorship, endorsement, approval, investigation, verification with the third parties or that any monitoring is being done by Morgan Stanley of any information contained within the articles or websites. Morgan Stanley is not responsible for the information contained on the third-party websites or your use of or inability to use such site. Nor do we guarantee their accuracy and completeness. The terms, conditions, and privacy policy of any third-party website may be different from those applicable to your use of any Morgan Stanley website. The information and data provided by the third-party websites or publications are as of the date when they were written and subject to change without notice.

Disclosures

Morgan Stanley Wealth Management is the trade name of Morgan Stanley Smith Barney LLC, a registered broker-dealer in the United States. This material has been prepared for informational purposes only and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Past performance is not necessarily a guide to future performance.

The author(s) (if any authors are noted) principally responsible for the preparation of this material receive compensation based upon various factors, including quality and accuracy of their work, firm revenues (including trading and capital markets revenues), client feedback and competitive factors. Morgan Stanley Wealth Management is involved in many businesses that may relate to companies, securities or instruments mentioned in this material.

This material has been prepared for informational purposes only and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security/instrument, or to participate in any trading strategy. Any such offer would be made only after a prospective investor had completed its own independent investigation of the securities, instruments or transactions, and received all information it required to make its own investment decision, including, where applicable, a review of any offering circular or memorandum describing such security or instrument. That information would contain material information not contained herein and to which prospective participants are referred. This material is based on public information as of the specified date, and may be stale thereafter. We have no obligation to tell you when information herein may change. We make no representation or warranty with respect to the accuracy or completeness of this material. Morgan Stanley Wealth Management has no obligation to provide updated information on the securities/instruments mentioned herein.

The securities/instruments discussed in this material may not be appropriate for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Morgan Stanley Wealth Management recommends that investors independently evaluate specific investments and strategies, and encourages investors to seek the advice of a financial advisor. The value of and income from investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies and other issuers or other factors. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates, and Morgan Stanley Wealth Management does not represent that any such assumptions will reflect actual future events. Accordingly, there can be no assurance that estimated returns or projections will be realized or that actual returns or performance results will not materially differ from those estimated herein.

The summary at the beginning of the report may have been generated with the assistance of artificial intelligence (AI).

This material should not be viewed as advice or recommendations with respect to asset allocation or any particular investment. This information is not intended to, and should not, form a primary basis for any investment decisions that you may make. Morgan Stanley Wealth Management is not acting as a fiduciary under either the Employee Retirement Income Security Act of 1974, as amended or under section 4975 of the Internal Revenue Code of 1986 as amended in providing this material except as otherwise provided in writing by Morgan Stanley and/or as described at www.morganstanley.com/disclosures/dol.

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal advisor for information concerning his/her individual situation and to learn about any potential tax or other implications that may result from acting on a particular recommendation.

This material is disseminated in Australia to "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813).

Morgan Stanley Wealth Management is not incorporated under the People's Republic of China ("PRC") law and the material in relation to this

report is conducted outside the PRC. This report will be distributed only upon request of a specific recipient. This report does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors must have the relevant qualifications to invest in such securities and must be responsible for obtaining all relevant approvals, licenses, verifications and or registrations from PRC's relevant governmental authorities.

Morgan Stanley Wealth Management is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.

This material is disseminated in the United States of America by Morgan Stanley Smith Barney LLC.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This material, or any portion thereof, may not be reprinted, sold or redistributed without the written consent of Morgan Stanley Smith Barney LLC.

© 2026 Morgan Stanley Smith Barney LLC. Member SIPC.

RSI1778015032051 05/2026