

The Muni SMA Advantage

Tax-Efficient Investing Through Municipal Separately Managed Accounts (SMAs)

WHAT IS A SEPARATELY MANAGED ACCOUNT (SMA)?

An SMA is a customized investment strategy that lets investors own individual securities directly, while an asset manager is responsible for the actual trades and management of the portfolio. SMAs are not a one-size-fits-all solution like mutual funds or exchange-traded funds (ETFs). Available in a variety of asset classes, styles and risk levels, SMAs can play a key role in a well-diversified portfolio.

SMAS ARE MORE ACCESSIBLE THAN EVER

As yields increase, investors are returning to municipal bonds in large numbers. Growing in popularity, SMAs offer lower fees and minimums, and now hold nearly a quarter of the municipal debt market.¹

BENEFITS TO CLIENTS



CUSTOMIZATION:

Holding direct positions in bonds allows portfolios to be tailored to suit each investor's needs and circumstances, with customization around maturity ranges, credit quality and state preference.



TAX-FREE INCOME AND TAX EFFICIENCY:

SMAs may employ tax-optimization strategies to improve after-tax returns through active tax management, including tax-loss harvesting. In addition, many SMAs can be funded with securities already owned which can help reduce any tax impact at inception.



TRANSPARENCY:

Investors know what they own in real time. Portfolio accessibility/transparency helps make better-informed decisions by showing individual securities in the portfolio, how each is performing, and details like cost basis, performance, trade history and maturity ladders.



DIVERSIFICATION:

Portfolio holdings can vary by duration, coupon, maturity, sector, or credit quality. Diversification is a powerful tool to manage risk.



COMPETITIVE FEES:

SMA Strategies are offered at competitive fees relative to many mutual funds. Sub-manager fees for Municipal SMAs on the UMA platform begin at 10 bps. Now available with lower minimums starting at \$10k.

THE VALUE OF A BOND MANAGER

A fixed income portfolio manager can offer a strong credit and relative value perspective that may provide additional yield without adding credit risk, along with a personally optimized portfolio that may add potential tax alpha.

Morgan Stanley provides unmatched access to a diverse range of municipal asset managers along with the intellectual capital and resources of the Firm. Morgan Stanley has 100+ offerings across Municipal Ladder, Duration Based & Hybrid Strategies. It's an opportune time to consider investing in municipal bond SMAs.

1. Source: JP Morgan Chase & Co., Fed Flow of Funds as of 3/31/23

If you have any questions about any of the illustrations, information or disclosures in this document, please contact your Morgan Stanley team.

Generally, investment advisory accounts are subject to an annual asset-based fee (the "Fee") which is payable monthly in advance (some account types may be billed differently). In general, the Fee covers Morgan Stanley investment advisory services, custody of securities with Morgan Stanley, trade execution with or through Morgan Stanley or its affiliates, as well as compensation to any Morgan Stanley Financial Advisor.

In addition, each account that is invested in a program that is eligible to purchase certain investment products, such as mutual funds, will also pay a Platform Fee (which is subject to a Platform Fee offset) as described in the applicable ADV brochure. Accounts invested in the Select UMA program may also pay a separate Sub-Manager fee, if applicable.

If your account is invested in mutual funds or exchange traded funds (collectively "funds"), you will pay the fees and expenses of any funds in which your account is invested. Fees and expenses are charged directly to the pool of assets the fund invests in and are reflected in each fund's share price. These fees and expenses are an additional cost to you and would not be included in the Fee amount in your account statements. The advisory program you choose is described in the applicable Morgan Stanley Smith Barney LLC ADV Brochure, available at www.morganstanley.com/ADV.

Morgan Stanley or Executing Sub-Managers, as applicable, in some of Morgan Stanley's Separately Managed Account ("SMA") programs may effect transactions through broker-dealers other than Morgan Stanley or our affiliates. In such instance, you may be assessed additional costs by the other firm in addition to the Morgan Stanley and Sub-Manager fees. Those costs will be included in the net price of the security, not separately reported on trade confirmations or account statements. Certain Sub-Managers have historically directed most, if not all, of their trades to outside firms. Information provided by Sub-Managers concerning trade execution away from Morgan Stanley is summarized at: www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf.

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Investing in fixed income securities involves interest rate risk, credit risk, and inflation risk. Interest rate risk is the possibility that bond prices will decrease because of an interest rate increase. When interest rates rise, bond prices, and the values of fixed income securities generally fall. Interest on municipal bonds is generally exempt from federal income tax. However, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, local tax-exemption typically applies if securities are issued within one's city of residence. The tax-exempt status of municipal securities may be changed by legislative process, which could affect their value and marketability. Credit risk is the risk that a company will not be able to pay its debts, including the interest on its bonds. Inflation risk is the possibility that the interest paid on an investment in bonds will be lower than the inflation rate, decreasing purchasing power.

Morgan Stanley offers investment program services through a variety of investment programs, which are opened pursuant to written client agreements. Each program offers investment managers, funds and features that are not available in other programs; conversely, some investment managers, funds or investment strategies may be available in more than one program. Morgan Stanley's investment advisory programs may require a minimum asset level and, depending on a client's specific investment objectives and financial position, may not be appropriate for the client. Please see the applicable program disclosure document for more information, available at www.morganstanley.com/ADV or from your Financial Advisor.

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