

# North Carolina High School Athletic Association, Inc.



**2021 Audit Results & Communications  
Meeting with the Board of Directors  
December 1, 2021**

**BLACKMAN  
& SLOOP**  
CERTIFIED PUBLIC ACCOUNTANTS

# Summary Agenda

Overview of  
2021 Financial  
Information

Current Events  
and Moving  
Forward

# Overview of Financial Information

## June 30

### ASSETS

	<u>2021</u>	<u>2020</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 15,414,857	\$ 9,786,220
Receivables	326,088	152,192
Prepaid expenses	67,450	67,237
Investments	27,653,503	30,460,992
Property and equipment, net	1,259,354	1,321,824
Restricted cash	65,399	77,999
<b>TOTAL ASSETS</b>	<u>\$ 44,786,651</u>	<u>\$ 41,866,464</u>

Consolidation of endowment investment accounts; timing of transfers to Morgan Stanley; cash @ 6/30/2021, invested subsequent to year-end.

Timing of account consolidation. \$7.7M & \$1M cash in investment accounts. \$35.4M vs \$31.5M.

# Overview of Financial Information

## June 30

### LIABILITIES AND NET ASSETS

	2021	2020	
<b>LIABILITIES:</b>			
Accounts payable and accrued expenses	\$ 2,149,924	\$ 1,048,488	Mainly year-end accruals to schools: \$1.8M / \$1M
Deferred revenue	24,168	23,150	
Agency funds	65,399	77,999	
Loans payable	-	186,200	PPP and EIDL loans forgiven
<b>TOTAL LIABILITIES</b>	<b>2,239,491</b>	<b>1,335,837</b>	
<b>NET ASSETS:</b>			
Without donor restrictions			
Board designated	10,961,171	10,732,084	Designated by the board for specific purposes; not donor directed.
Undesignated	15,534,985	13,931,220	
	<b>26,496,156</b>	<b>24,663,304</b>	
With donor restrictions			
Purpose/time restricted	313,996	159,037	
Perpetuity restricted	15,737,008	15,708,286	
	<b>16,051,004</b>	<b>15,867,323</b>	Cumulative gifts; original amounts and cannot be spent. Individual donations plus \$1 surcharge.
<b>TOTAL NET ASSETS</b>	<b>42,547,160</b>	<b>40,530,627</b>	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 44,786,651</b>	<b>\$ 41,866,464</b>	

# Overview of Financial Information

## Net Asset Detail - June 30

	2021			2021 Totals	2020 Totals
	Purpose/Time Restricted	Perpetuity Restricted	Board Designated/		
			Undesignated		
Administrators Education Fund	\$ 84	\$ 2,300	\$ 1,390,321	\$ 1,392,705	\$ 1,100,851
Alford Family Golf Scholarship	-	3,775	-	3,775	-
Charlie Adams Endowed Scholarship	34,411	100,945	97,322	232,678	189,302
Clary Medal Awards	49,780	100,000	-	149,780	129,450
Coaches Education Fund	100	350	743,822	744,272	589,151
Dave Harris Athletic Director Award	15,865	18,936	-	34,801	29,815
Gainey Student Scholarships	44,200	150,050	-	194,250	174,705
General Endowment	-	14,975,503	7,620,314	22,595,817	23,048,553
Hall of Fame Endowment	78,637	138,324	62,350	279,311	200,129
Heads Up Football Coaches Training	16,550	-	-	16,550	16,676
Health & Safety Fund	317	1,210	834,192	835,719	661,463
Lacrosse Scholarship	848	9,040	14,092	23,980	20,663
McGee Scholarship	4,133	40,066	111,226	155,425	127,602
Tony Cullen Memorial Fund	18,467	48,192	11,982	78,641	62,298
Tony Webb Coach of the Year Award	50,604	80,837	-	131,441	113,825
Willie Bradshaw Scholarship	-	67,480	75,550	143,030	134,924
	313,996	15,737,008	10,961,171	27,012,175	26,599,407
Undesignated	-	-	15,534,985	15,534,985	13,931,220
Total net assets at June 30	\$ 313,996	\$ 15,737,008	\$ 26,496,156	\$ 42,547,160	\$ 40,530,627

The Association has fiduciary responsibility to honor the restrictions of the donors. Gift acceptance policy for minimum threshold for new endowments?

# Overview of Financial Information

## Years ended June 30

### SUPPORT AND REVENUE:

	2021 Totals	2020 Totals	2019 Totals
Playoffs	\$ 612,588	\$ 1,255,908	\$ 1,623,016
Contributions	932,496	2,012,405	2,085,597
In-kind contributions	103,776	95,663	91,313
Government grants and contracts	99,836	187,220	243,287
Officials' registrations	327,112	436,196	453,726
Membership dues	481,996	488,985	379,934
Insurance	570,379	575,167	580,628
Other income	2,751	101,555	110,547
Programs, books, and directories	5,687	23,682	27,217
Net investment return	8,197,000	833,151	1,723,849
Loan forgiveness	186,200	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>11,519,821</b>	<b>6,009,932</b>	<b>7,319,114</b>

2021 1<sup>st</sup> year without endowment games and \$1 surcharge (\$750k); corp. sponsor. decrease.

Membership increase in 2020.

Investment return: 27%/3%/7%

### EXPENSES:

Program services	8,603,349	3,966,377	4,358,089
General and administrative	629,228	787,584	629,039
Fundraising	270,711	298,124	277,971
<b>TOTAL EXPENSES</b>	<b>9,503,288</b>	<b>5,052,085</b>	<b>5,265,099</b>

Program expense % of total expenses: 90%/78%/83%; industry recommends at least 65%

### CHANGES IN NET ASSETS

2,016,533	957,847	2,054,015
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### NET ASSETS - BEGINNING OF YEAR

40,530,627	39,572,780	37,518,765
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### NET ASSETS - END OF YEAR

\$ 42,547,160	\$ 40,530,627	\$ 39,572,780
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Total revenue w/o investment return and loan forgiveness: \$3.1M/\$5.2M/\$5.6M.

# Overview of Financial Information

## Years ended June 30

	2021 Totals	2020 Totals	Variance
Advertising	\$ 1,153	\$ 51,943	\$ (50,790)
Awards	176,861	100,218	76,643
Building and grounds maintenance	16,654	18,678	(2,024)
Contract services	9,000	14,049	(5,049)
Depreciation	81,394	81,221	173
Gate receipts distribution	226,121	213,435	12,686
Hall of Fame	18,893	22,178	(3,285)
Insurance	468,047	477,106	(9,059)
Loss on sale of fixed assets	2,899	-	2,899
Meetings expense	24,980	80,495	(55,515)
Office expense and supplies	202,970	258,726	(55,756)
Other expenses	205,963	235,164	(29,201)
Payments to schools	5,724,559	921,230	4,803,329
Printing, publications, and programs	89,851	102,216	(12,365)
Professional services	125,992	83,654	42,338
Salaries and benefits	1,358,165	1,387,068	(28,903)
Team expenses	724,235	773,059	(48,824)
Telephone and utilities	29,032	27,291	1,741
Travel	4,979	10,887	(5,908)
Vehicle expense	5,089	3,004	2,085
Workshops	6,451	26,507	(20,056)
Bad debt expense	-	163,956	(163,956)
Total expenses	<u>\$ 9,503,288</u>	<u>\$ 5,052,085</u>	<u>\$ 4,451,203</u>

Green highlights are decrease due to COVID.

CAPS \$4M payment, plus \$1.7M

Corp sponsorship write offs

# Current Events

## Fact vs Fiction

- Non-profit organizations need to make a profit and build reserves. If not, they are operating on a day-to-day basis.
- Non-profit organizations that hold endowments will continue to see net assets increase each year. They continue to solicit new gifts and have a fiduciary responsibility to manage investments to honor donor wishes.
- Investment management fees average 0.9% annually.
- All salaries are not required to be reported on the 990.
- CPA firms are allowed to perform an audit for an organization and prepare the annual 990 information return.
- Blackman & Sloop is independent of NCHSAA:
  - We do not perform the bookkeeping.
  - We do not take part in management decisions.
  - We do not initiate or approve transactions.
  - Our firm is audited every 3 years to ensure we are following our internal quality review policies and procedures.



# Progress Moving Forward

- Continue to do things correctly.
- Questions to be asked:
  - Should a separate non-profit entity be established to manage the endowments, independent of NCHSAA.
  - When should this be approved.
  - When should the process start.
  - What is involved in the process.
  - Who should govern the new entity.
  - What committees will be necessary to approve distribution of endowment earnings.
  - Who should be part of the board and committees.

# CONTACT INFORMATION

## BLACKMAN & SLOOP

Our service philosophy is based on experienced teams distinguished by relevant credentials and continuity of service. There is a high level of industry experience among the members of the team serving you, which results in responsive and high-quality service. Our primary team members during the current year audit included the following members:

**Andrea Eason**  
**Principal**  
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**Rob Lewis**  
**Senior Manager**  
**[robert@b-scpa.com](mailto:robert@b-scpa.com)**

**Dauer Lewis**  
**Senior Associate**  
**[dlewis@b-scpa.com](mailto:dlewis@b-scpa.com)**

*Partnering with our clients in reaching their goals today  
and exceeding them tomorrow.*

## Custom Report

Prepared on November 16, 2021 for:

**NC HIGH SCHOOL ATHLETIC ASSOC INC**

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NC HIGH SCHOOL ATHLETIC ASSOC INC

Prepared on November 16, 2021 | Reporting Currency: USD

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Please review the disclosures and definitions throughout this Document.  
Various sub-sections of this Document may not contain information on all accounts/positions covered in this Document.

## ACCOUNT(S) INCLUDED IN THIS REPORT

NC HIGH SCHOOL ATHLETIC ASSOC INC

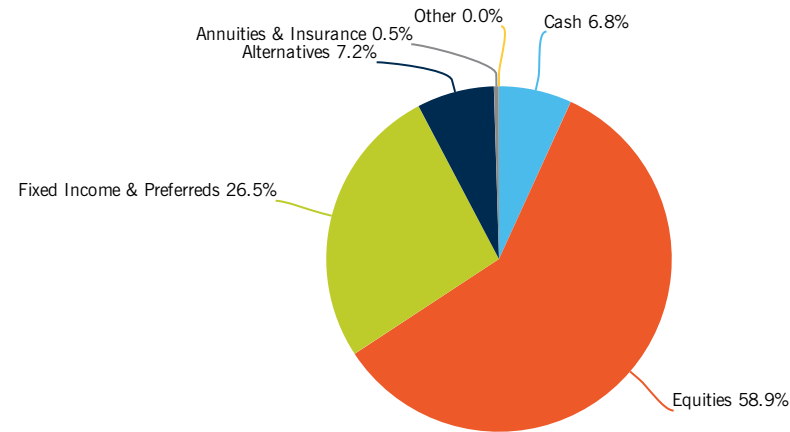
Reporting Currency: USD

## MORGAN STANLEY WEALTH MANAGEMENT

Account Name and Address	Account Type/ Manager Name	Advisory/ Brokerage	Account Number	Date Opened	Date Closed	Performance (%) Inception - 11/15/21	Total Value (\$) 11/15/21	% of Portfolio 11/15/21
BB&T SECURITIES PO BOX 3216 CHAPEL HILL	AAA	Brokerage	760-XXX641	05/06/21	-	-	0.00	0.00
DEFERRED COMP PO BOX 3216 CHAPEL HILL	AAA	Advisory	760-XXX621	08/29/08	07/30/14	-	0.00	0.00
Education & Health & Safety PO BOX 3216 CHAPEL HILL	Select UMA	Advisory	760-XXX640	05/06/21	-	4.08	2,861,847.01	8.35
Endowment Funds PO BOX 3216 CHAPEL HILL	AAA	Brokerage	760-XXX747	10/02/08	09/21/17	-	0.00	0.00
FIRST ALLIED SECURITIES PO BOX 3216 CHAPEL HILL	AAA	Brokerage	760-XXX638	05/06/21	09/03/21	-	0.00	0.00
General Endowment Funds PO BOX 3216 CHAPEL HILL	Select UMA	Advisory	760-XXX745	10/02/08	-	10.25	22,390,551.30	65.34
HALL OF FAME PO BOX 3216 CHAPEL HILL	Select UMA	Advisory	760-XXX091	09/14/11	-	8.40	430,189.02	1.26
Programming Reserves PO BOX 3216 CHAPEL HILL	Select UMA	Advisory	760-XXX746	10/02/08	-	9.42	7,192,368.76	20.99
PROGRAMMING RESERVES PO BOX 3216 CHAPEL HILL	AAA	Brokerage	760-XXX748	10/02/08	-	5.07	230,982.62	0.67
Scholarships & Awards PO BOX 3216 CHAPEL HILL	Select UMA	Advisory	760-XXX639	05/06/21	-	1.72	1,160,474.68	3.39
<b>Morgan Stanley Wealth Management Total</b>							<b>34,266,413.39</b>	<b>100.00</b>
<b>Total Portfolio</b>							<b>34,266,413.39</b>	<b>100.00</b>

Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. All content within this Document applies to the accounts listed above or a subset thereof, unless otherwise indicated. Closed Accounts listed above are included for historical performance. The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

ASSET ALLOCATION - ASSET CLASS



ASSET ALLOCATION

	Total Value (\$) 06/30/2021	% of Portfolio 06/30/2021
Cash	2,360,857.73	6.8
Equities	20,397,431.77	58.9
Fixed Income & Preferreds	9,186,152.02	26.5
Alternatives	2,502,947.20	7.2
Annuities & Insurance	164,322.96	0.5
Other	0.01	0.0
<b>TOTAL PORTFOLIO</b>	<b>34,611,711.69</b>	<b>100.0</b>

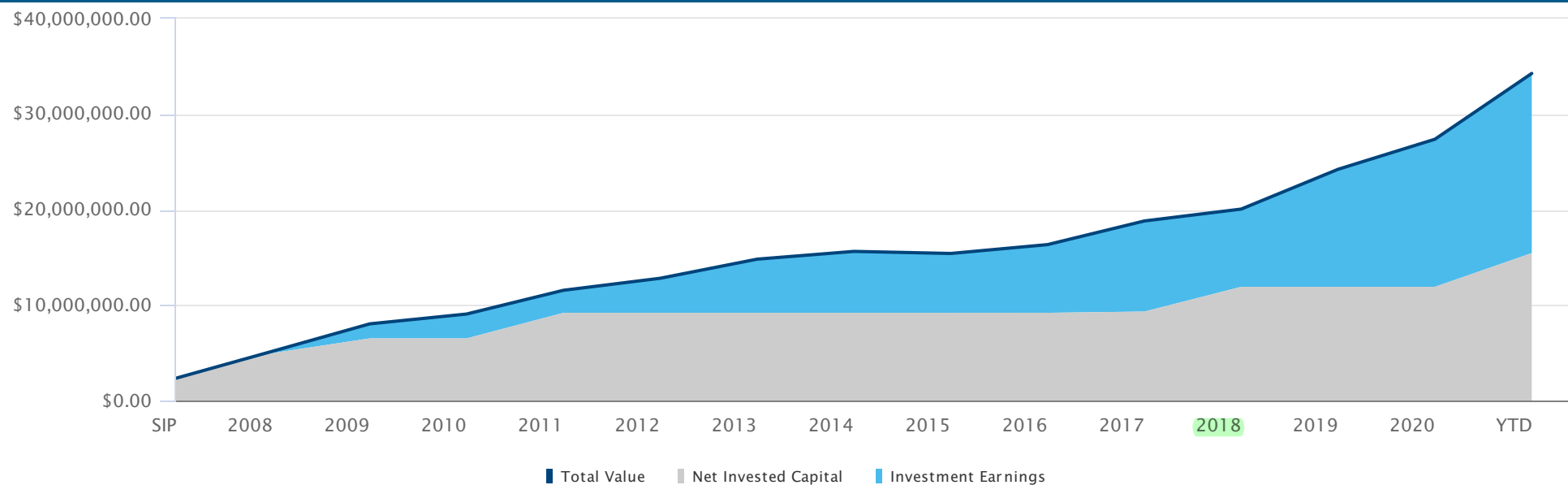
Total Value and % of Portfolio are based on US Dollar values.

## CHANGE IN PORTFOLIO VALUE

NC HIGH SCHOOL ATHLETIC ASSOC INC

As of November 15, 2021 | Reporting Currency: USD

## CHANGE IN VALUE SINCE PERFORMANCE INCEPTION



## CHANGE IN VALUE

Year	Beginning Total Value (\$)	Net Contributions / Withdrawals (\$)	Investment Earnings (\$)	Ending Total Value (\$)
2021(YTD)	27,372,255.68	3,531,930.87	3,362,224.57	34,266,411.12
2020	24,223,551.37	0.00	3,148,704.31	27,372,255.68
2019	20,055,550.21	0.00	4,168,001.16	24,223,551.37
2018	18,810,442.08	2,592,082.63	-1,346,974.50	20,055,550.21
2017	16,333,384.42	131,345.53	2,345,712.14	18,810,442.08
2016	15,405,095.18	3,016.48	925,272.76	16,333,384.42
2015	15,621,650.78	838.48	-217,394.08	15,405,095.18
2014	14,807,900.48	-1.76	813,752.06	15,621,650.78
2013	12,807,759.07	0.00	2,000,141.41	14,807,900.48
2012	11,547,809.02	-54.52	1,260,004.57	12,807,759.07

Does not include Performance Ineligible Assets.

## CHANGE IN PORTFOLIO VALUE

NC HIGH SCHOOL ATHLETIC ASSOC INC

As of November 15, 2021 | Reporting Currency: USD

## CHANGE IN VALUE (Continued)

Year	Beginning Total Value (\$)	Net Contributions / Withdrawals (\$)	Investment Earnings (\$)	Ending Total Value (\$)
2011	9,060,775.49	2,677,556.96	-190,523.43	11,547,809.02
2010	8,031,150.48	205.06	1,029,419.95	9,060,775.49
2009	5,175,128.08	1,531,864.90	1,324,157.50	8,031,150.48
2008	2,338,752.36	2,636,124.09	200,251.63	5,175,128.08
Performance Inception : 10/27/08				

Does not include Performance Ineligible Assets.

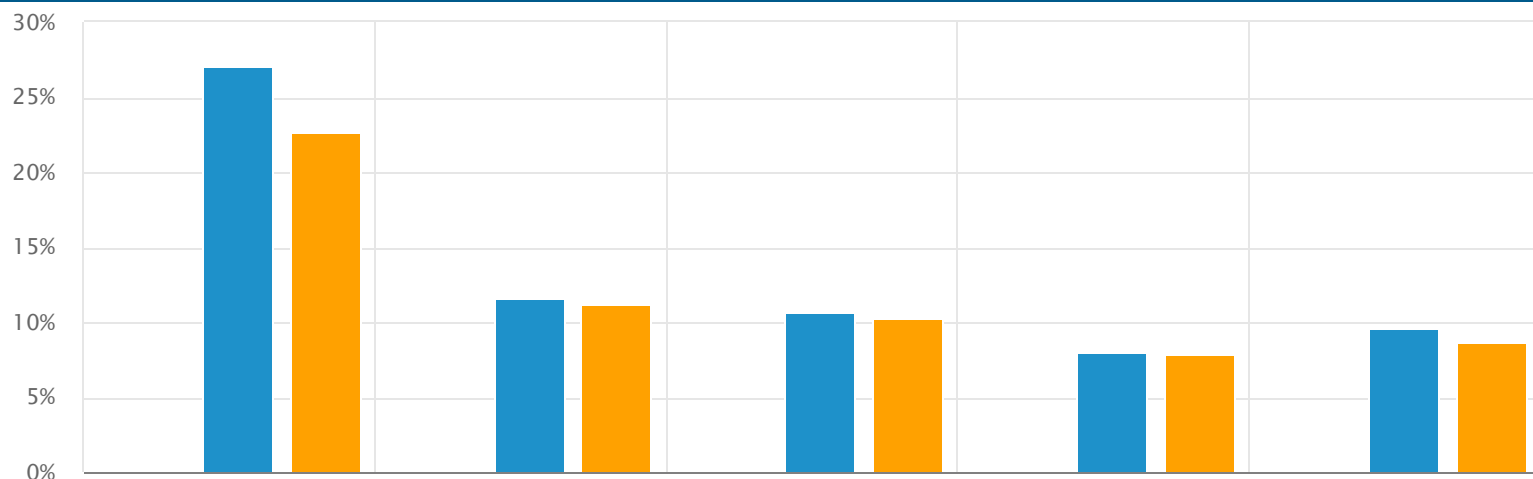


## TIME WEIGHTED PERFORMANCE SUMMARY - ADVISORY ASSETS

NC HIGH SCHOOL ATHLETIC ASSOC INC

As of June 30, 2021 | Reporting Currency: USD

## RETURN % (NET OF FEES) VS. BENCHMARKS (ANNUALIZED)



	Last 12 Months 06/30/20 - 06/30/21	Last 3 Years 06/30/18 - 06/30/21	Last 5 Years 06/30/16 - 06/30/21	Last 10 Years 06/30/11 - 06/30/21	Performance Inception 11/06/08 - 06/30/21
Beginning Total Value (\$)	23,219,203.72	18,437,688.43	14,186,097.65	9,844,455.96	3,224,833.00
Net Contributions/Withdrawals (\$)	1,037,063.29	3,905,566.30	5,302,059.15	6,279,157.53	10,413,962.85
Investment Earnings (\$)	6,103,261.95	8,016,274.23	10,871,372.16	14,235,915.47	16,720,733.11
Ending Total Value (\$)	30,359,528.96	30,359,528.96	30,359,528.96	30,359,528.96	30,359,528.96
Return % (Net of Fees)	27.11	11.60	10.69	8.04	9.60
Balanced World 60W 30 10 (%)	22.69	11.20	10.28	7.82	8.63

Inception dates for advisory account(s) reflect the most recent advisory program or discretion change.

The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

## DOLLAR WEIGHTED PERFORMANCE DETAIL - ADVISORY ASSETS

NC HIGH SCHOOL ATHLETIC ASSOC INC

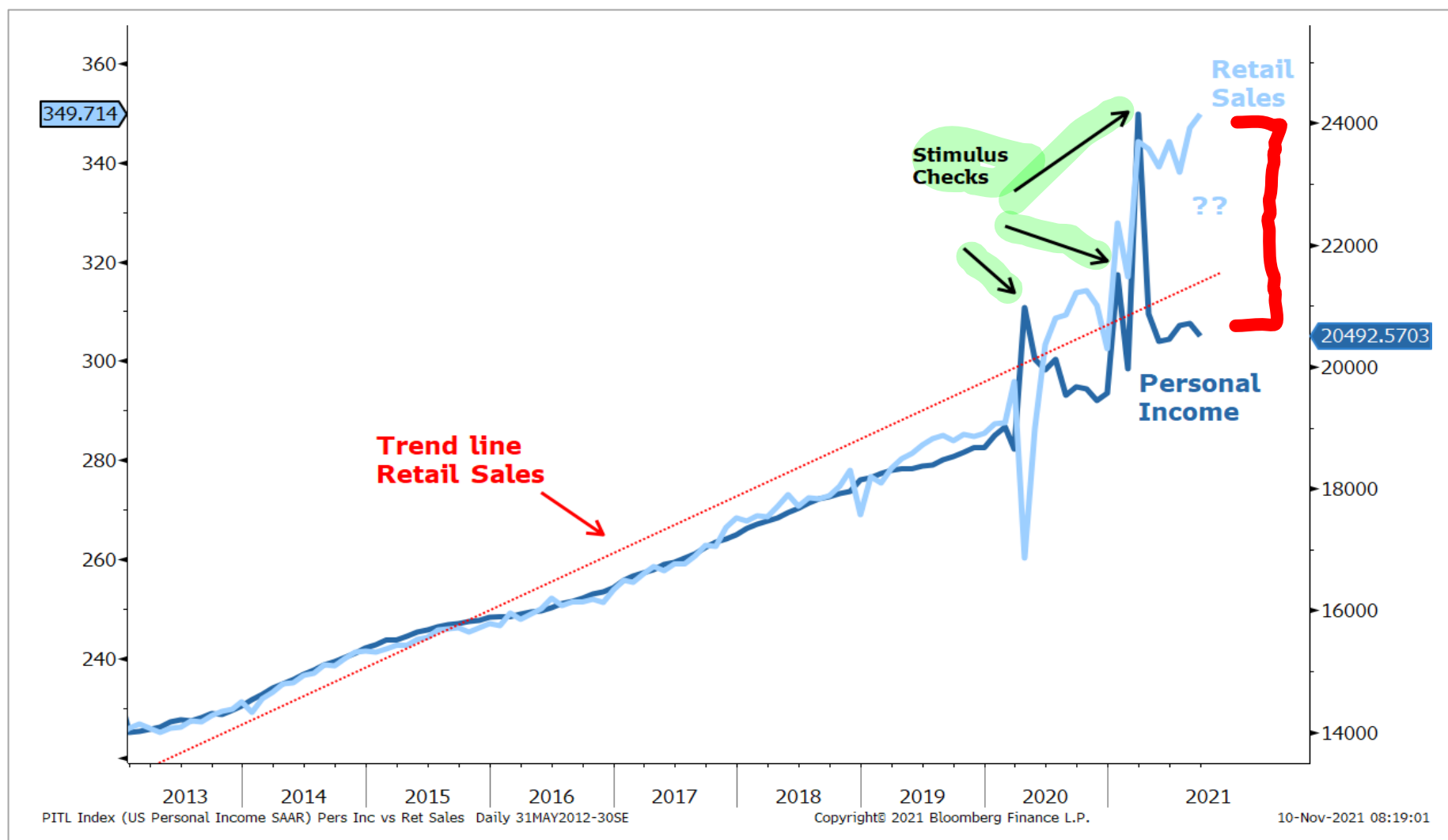
As of June 30, 2021 | Reporting Currency: USD

## RETURN % (GROSS OF FEES) BY ASSET CLASS VS. BENCHMARKS

Asset Class/ Benchmark	Performance Inception Date	Total Value (\$) 06/30/21	% Of Portfolio 06/30/21	Last 12 Months (%) 06/30/20 - 06/30/21	Last 5 Years (%) 06/30/16 - 06/30/21	Performance Inception (%) to 06/30/21
<b>Equities</b>	<b>07/01/11</b>	<b>15,145,687.51</b>	<b>49.89</b>	<b>47.61</b>	<b>16.52</b>	<b>12.19</b>
US Equities	07/01/11	11,812,540.04	38.91	50.79	18.87	14.44
International Equities	07/01/11	2,473,155.36	8.15	36.54	9.04	5.22
Emerging & Frontier Mkt	12/31/14	859,992.12	2.83	40.54	10.33	5.69
<b>Fixed Income &amp; Preferreds</b>	<b>07/01/11</b>	<b>7,083,893.98</b>	<b>23.33</b>	<b>3.52</b>	<b>4.72</b>	<b>5.53</b>
<b>Alternatives</b>	<b>07/01/11</b>	<b>2,240,549.69</b>	<b>7.38</b>	<b>10.53</b>	<b>4.14</b>	<b>3.62</b>
<b>Cash</b>	<b>07/01/11</b>	<b>5,889,397.78</b>	<b>19.40</b>	<b>-</b>	<b>-</b>	<b>-</b>

The investment returns shown on this page are dollar-weighted measurements which are affected by the timing and amount of your contributions and withdrawals. Inception dates for advisory account(s) reflect the most recent advisory program or discretion change. Year to Date(YTD), Quarter to Date(QTD) and Month to Date(MTD): Returns are for the period in which position or account was open.

## Retail Sales Have Tapped into Savings for a Strong Holiday Spending Season



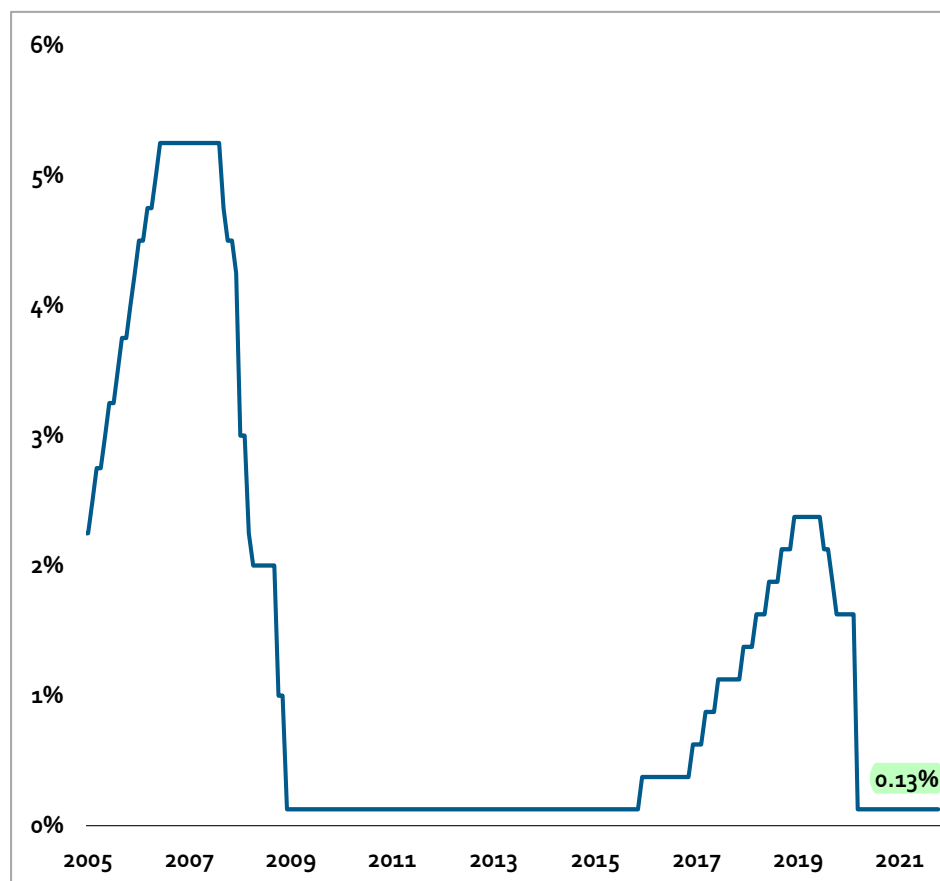
Source: Bloomberg, Morgan Stanley & Co. Research as of November 10, 2021

Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. 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. Please refer to important information, disclosures and qualifications at the end of this material.

# The Fed Cut Rates to the Zero Lower Bound in March 2020, Leaving Quantitative Easing as the Primary Tool for Further Accommodation

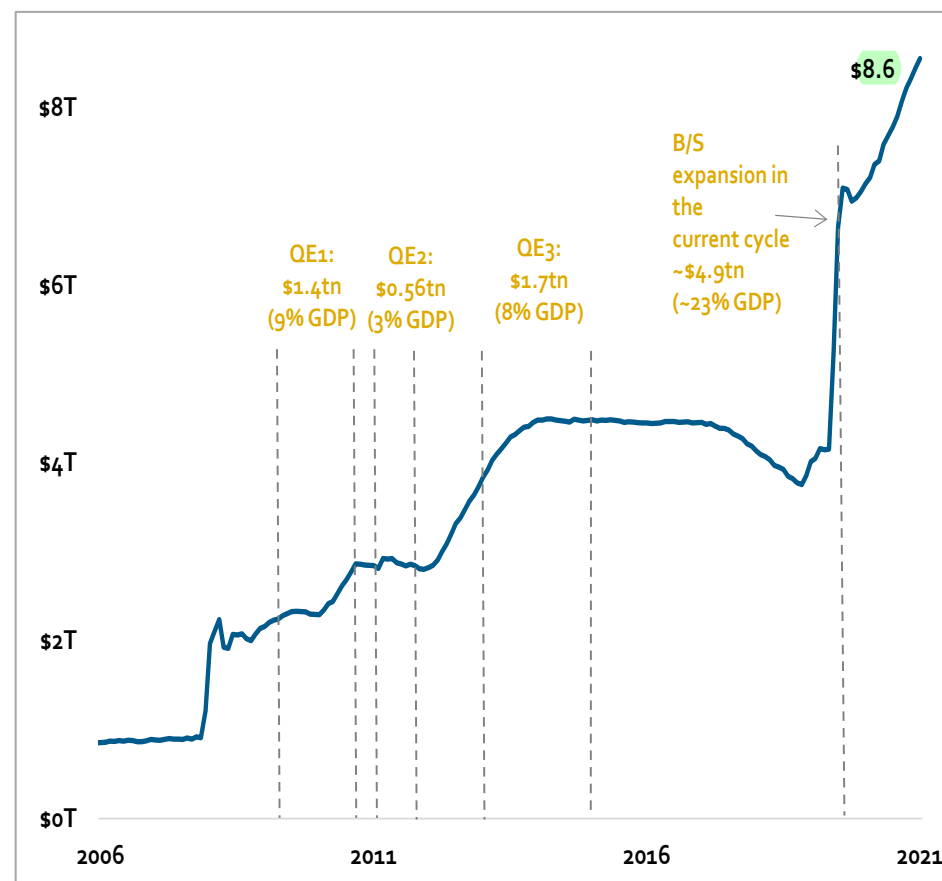
## Fed Funds Rate

As of October 29, 2021



## Fed Balance Sheet

As of October 29, 2021



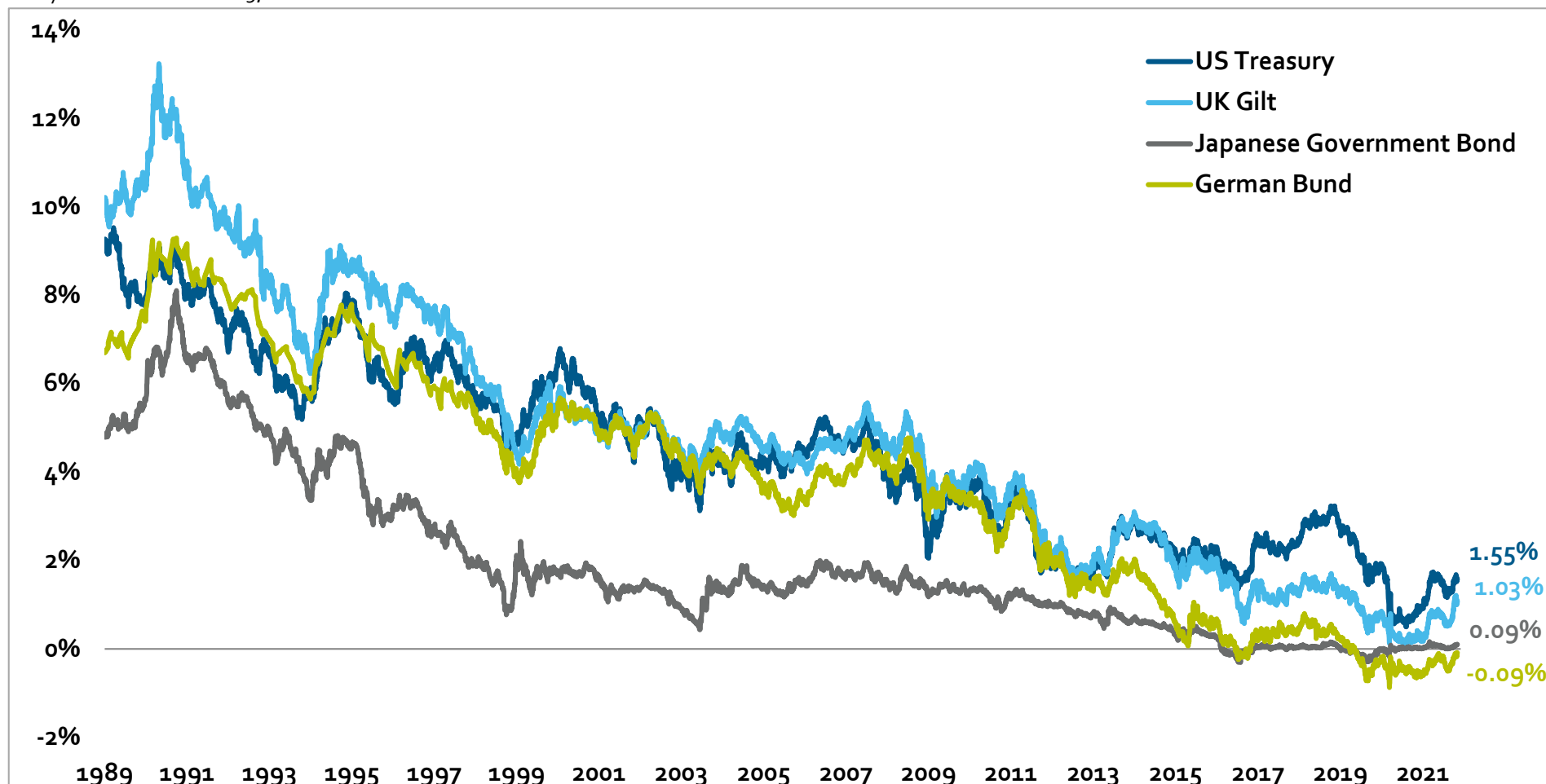
Source: Haver Analytics, Morgan Stanley Wealth Management Market Strategy

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# Sovereign Bond Yields (1988-2021)

## 10-Year Sovereign Bond Yields

Daily data as of October 29, 2021



Source: FactSet, Morgan Stanley Wealth Management GIC.

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# S&P 500 Current and Historical Valuation

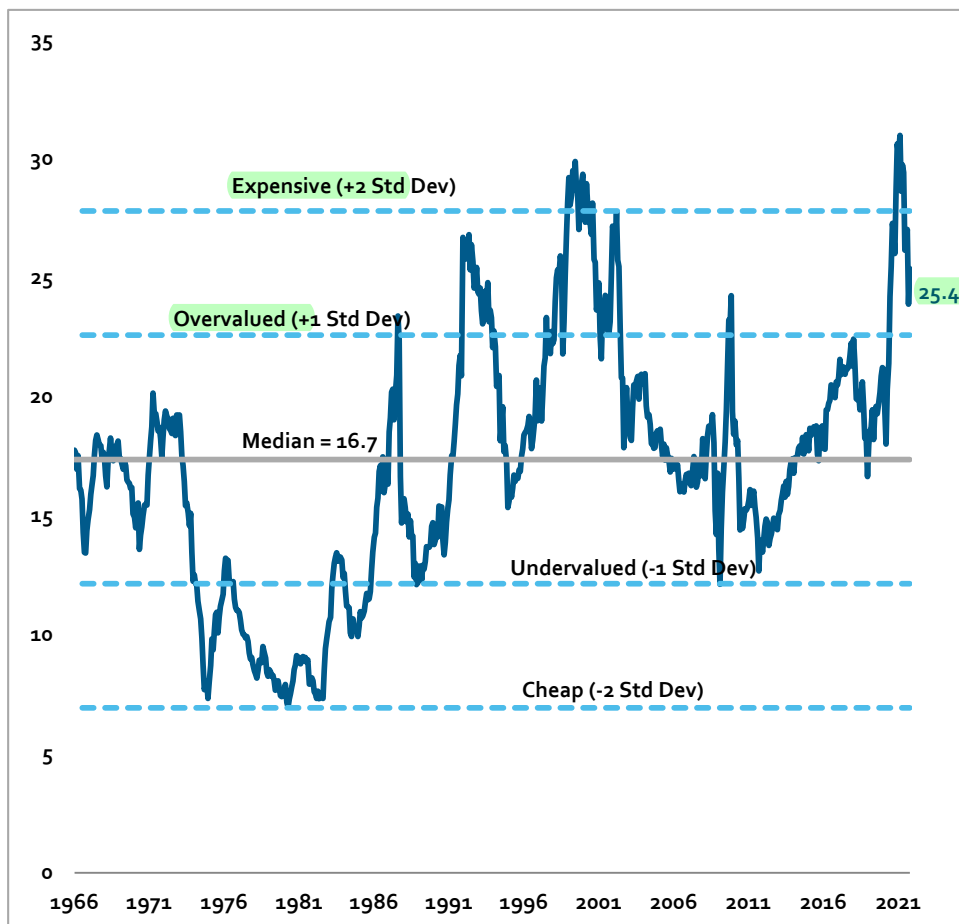
## S&P 500 Current and Historical Valuation

As of October 29, 2021

	Tech Bubble	Financial Crisis	Oct 29, 2021	20-Year Average	Current Relative to Average
Trailing P/E	28.9	12.1	25.4	18.9	6.47
Forward P/E	26.6	11.2	21.2	15.5	1.37
Trailing Normalized P/E	48.7	11.9	38.1	24.5	1.56
Shiller P/E	43.2	14.1	38.3	25.7	1.49
P/B	5.0	1.6	4.7	2.8	1.69
EV/EBITDA	16.5	9.0	18.1	10.9	1.66
Trailing PEG	NA	1.0	1.4	1.5	0.95
Forward PEG	NA	1.0	1.3	1.3	0.96
P/OCF	19.4	6.5	18.0	11.6	1.55
P/FCF	41.6	12.1	26.8	19.3	1.39
EV/Sales	3.0	1.4	3.8	1.9	1.98
S&P 500 in WTI Terms	55.7	16.4	55.1	32.6	1.69
S&P 500 in Gold Terms	5.4	0.8	2.6	1.9	1.38
Equity Risk Premium (bps)	-225	588	317.0	298	1.07

## S&P 500 Trailing Price/Earnings Ratio with Historical Median

As of October 29, 2021



Source: Bloomberg, FactSet, Morgan Stanley Wealth Management GIC. Tech Bubble data is as of 3/31/2000, Financial Crisis data is as of 2/28/2009. Trailing and Forward price-earnings to growth (PEG) ratio uses 10-year average. The Shiller P/E ratio, also known as the cyclically adjusted P/E ratio, uses a 10-year average of inflation-adjusted earnings to value the stock market. Equity risk premium is the excess return that an individual stock or the overall stock market provides over a risk-free rate. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time. Standard deviation (volatility) is a measure of the dispersion of a set of data from its mean.

Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. 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. Please refer to important information, disclosures and qualifications at the end of this material.

# Current Indicators: Earnings

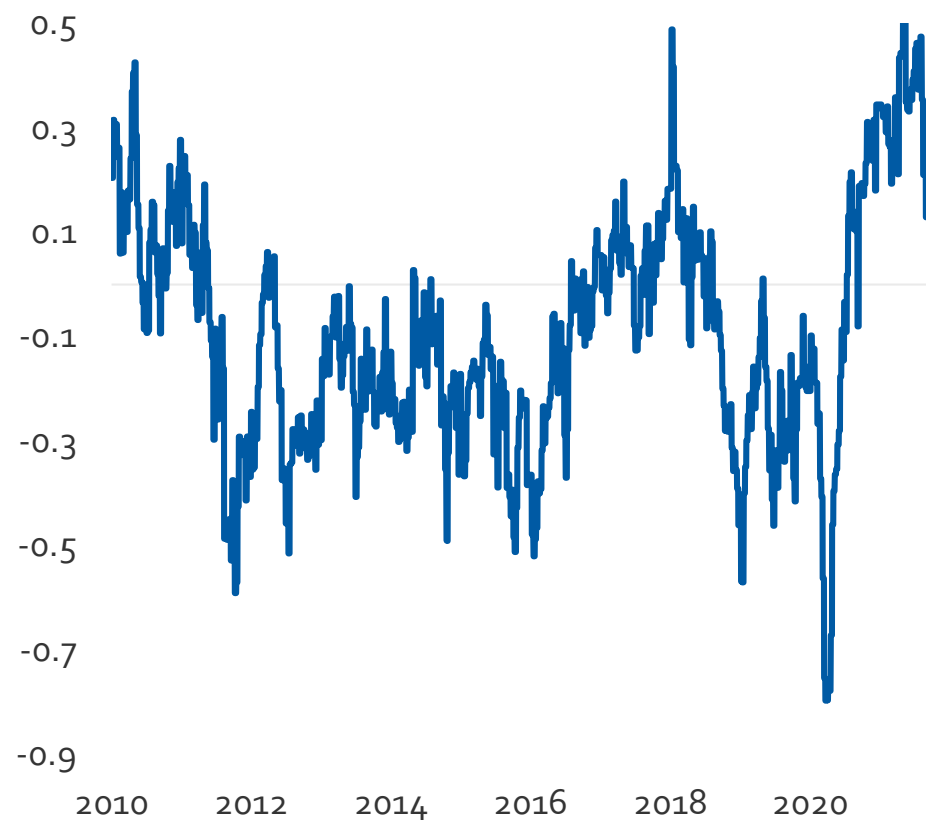
## Morgan Stanley S&P 500 Revenue and Earnings Estimates

As of November 12, 2021

Sector/Index	Revenue Growth			Earnings Growth		
	2020	2021E	2022E	2020	2021E	2022E
Consumer Discretionary	0.1%	15.4%	13.4%	-29.9%	66.1%	27.5%
Consumer Staples	3.6%	3.7%	2.9%	1.9%	6.0%	8.3%
Energy	-32.1%	42.1%	7.2%	-84.6%	787.8%	30.8%
Financials	-4.9%	8.2%	1.7%	-28.3%	76.6%	-10.8%
Health Care	6.7%	10.8%	5.4%	3.9%	23.2%	2.8%
Industrials	-13.7%	11.8%	10.8%	-39.9%	45.1%	37.4%
Info Tech	7.5%	13.9%	4.3%	4.1%	35.8%	7.9%
Materials	-6.0%	19.9%	-5.0%	-12.9%	88.6%	3.8%
Communication Services	10.4%	8.6%	6.9%	-4.3%	40.7%	5.9%
Utilities	-4.6%	7.7%	2.3%	5.6%	4.5%	3.8%
REITS	-3.1%	7.8%	9.3%	-3.0%	15.4%	7.1%
S&P 500	-2.0%	12.4%	6.0%	-13.7%	45.2%	7.4%

## Citi Global Earnings Revision Index

As of November 5, 2021



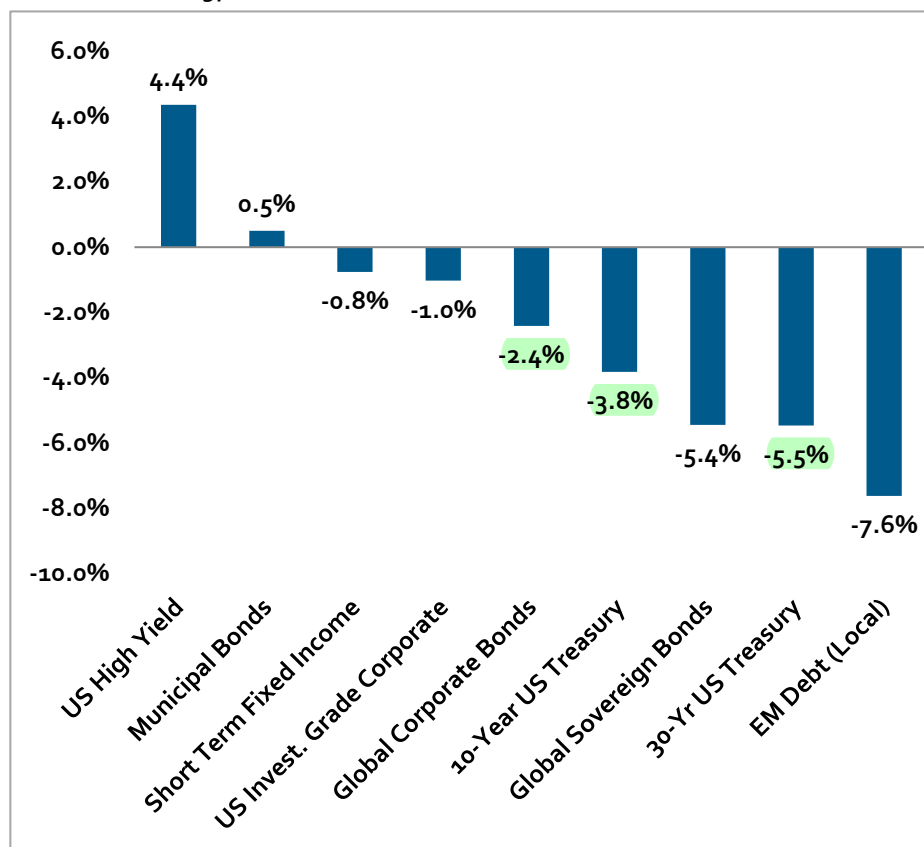
Source: Bloomberg, FactSet, Morgan Stanley Wealth Management GIC. Earnings revisions breadth is defined as the number of positive analyst revisions minus the number of negative analyst revisions divided by the total number of revisions.

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# Fixed Income Performance and Spreads

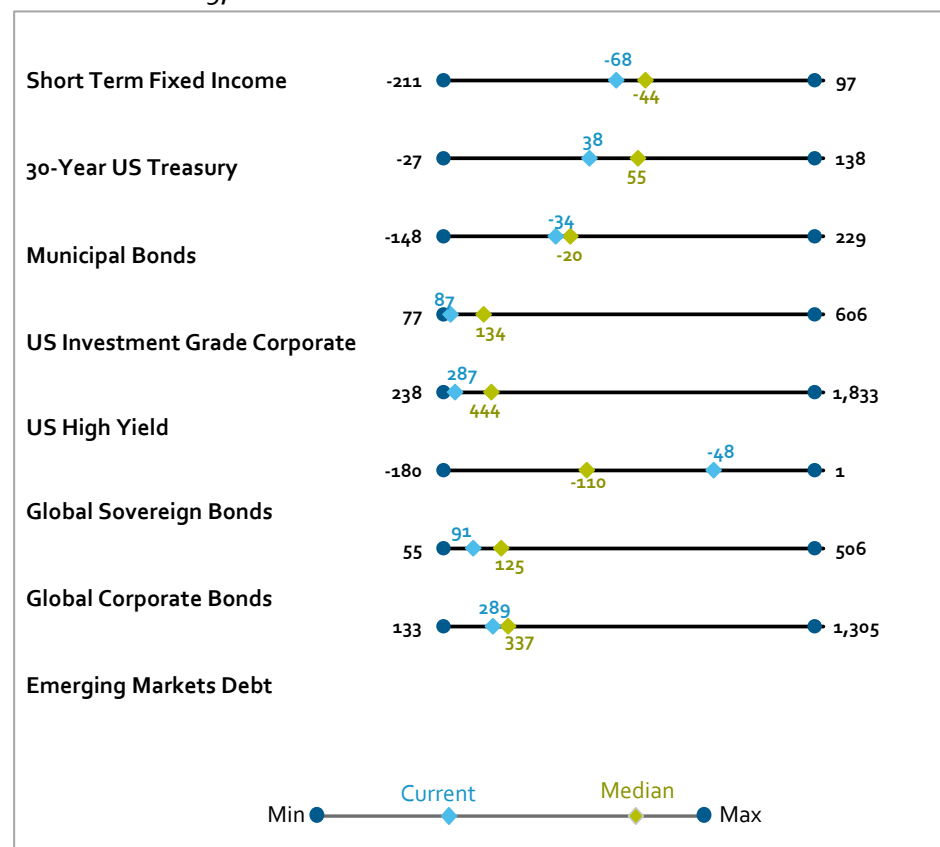
## YTD Total Return <sup>1</sup>

As of October 29, 2021



## Yield Spreads Vs. Past 20 Years <sup>2</sup>

As of October 29, 2021



Source: FactSet, Bloomberg, Morgan Stanley Wealth Management GIC. (1) Indices used for this analysis include: Bloomberg US High Yield, Bloomberg BUS Gov/Credit Float Adjusted 1-5Y Bond (short duration), Bloomberg Global Aggregate Credit-Corporate, JP Morgan GBI-EM Global Diversified (EM debt), Bloomberg US Investment Grade Corporate, Bloomberg Muni Bond, and Bloomberg Global Aggregate Government (global sovereign). (2) Yield spread ranges are based on 20 years of data.

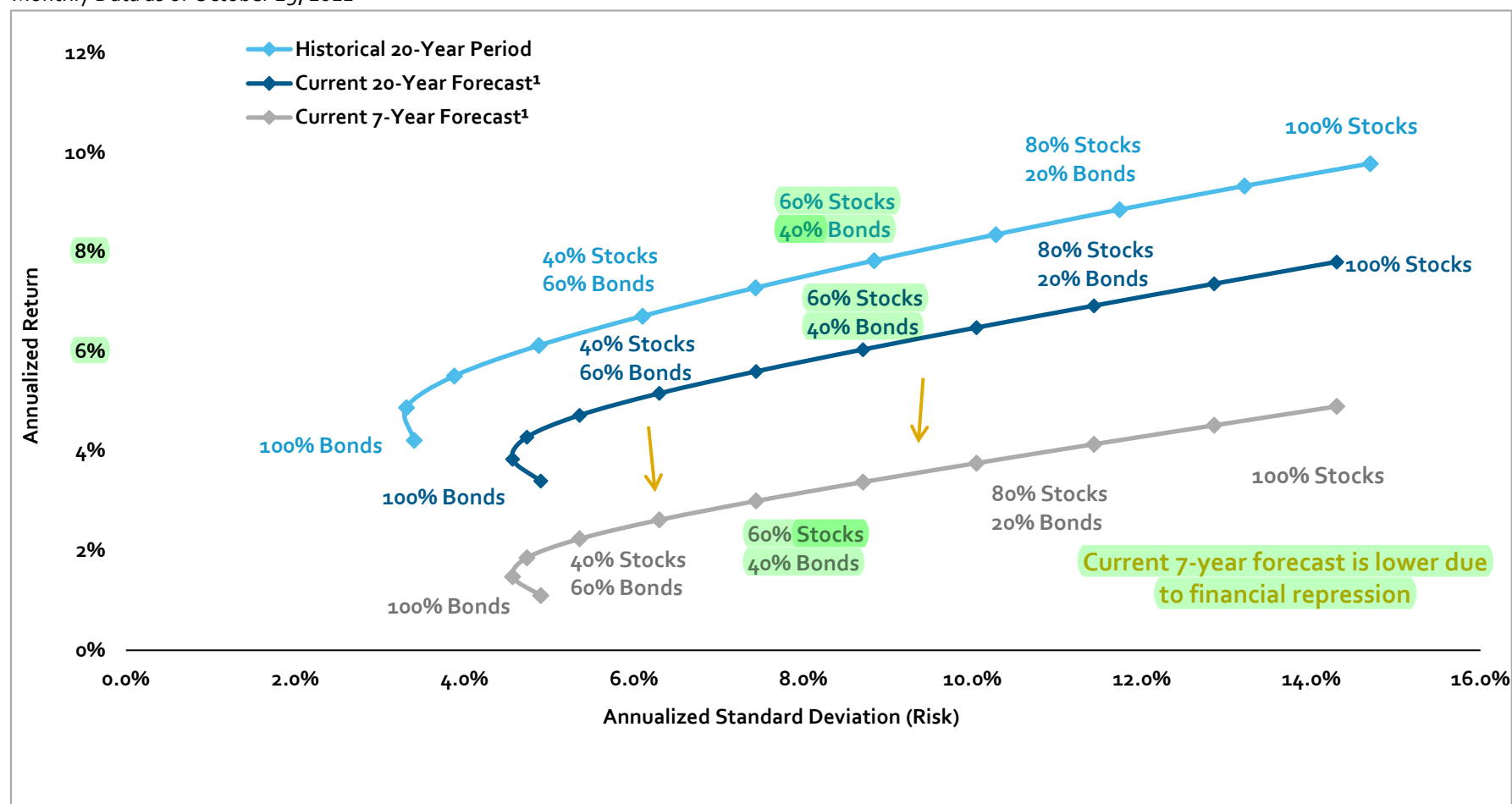
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# Forecasted Efficient Frontiers

## Stock and Bond Blends

Monthly Data as of October 29, 2021



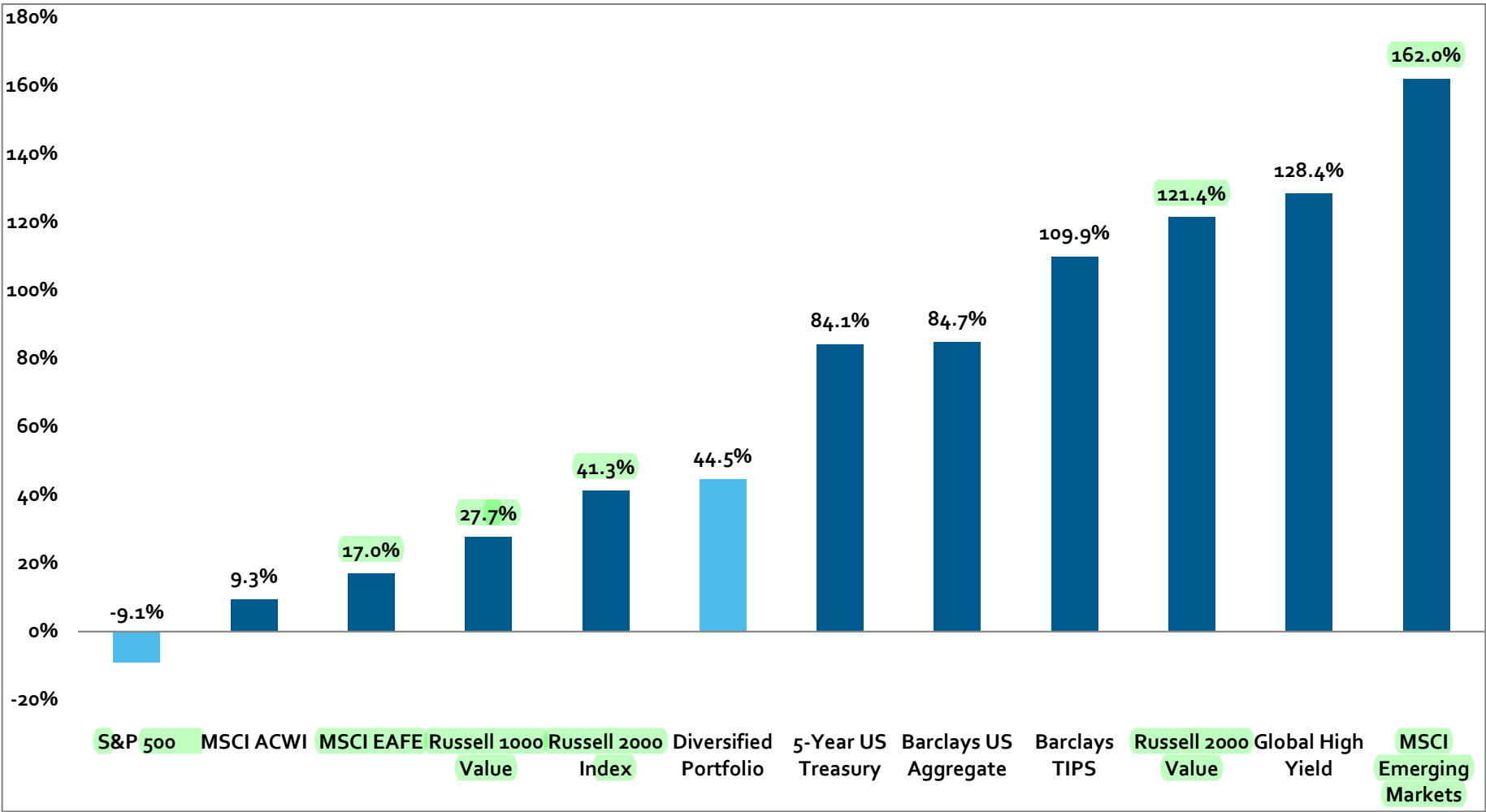
Source: FactSet, Morgan Stanley Wealth Management GIC. For illustrative purposes only. Stocks are represented by the S&P 500 and bonds are represented by the Bloomberg US Aggregate Index. (1) Forecasts are based on capital market assumptions as published in the GIC's Strategic Asset Allocation Capital Markets Update, April 2, 2019. Standard deviation (volatility) is a measure of the dispersion of a set of data from its mean.

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# “Lost Decade” (2000-2010) Demonstrates the Importance of Global Diversification and Asset Allocation

## Total Returns

January 2000 - December 2009



Source: FactSet, Bloomberg, Morgan Stanley Wealth Management GIC, The Yield Book® Software and Services. © 2018 FTSE Index LLC. All rights reserved. Note: Diversified Portfolio is comprised of 50% MSCI All Country World Index/45% Bloomberg Barclays US Aggregate Bond Index/5% FTSE 3-Month T-Bill Index. Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. 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. Please refer to important information, disclosures and qualifications at the end of this material.

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Unless otherwise indicated, performance is an aggregated composite calculation of the entire portfolio and may include brokerage and investment advisory accounts as well as assets for different accounts included in this report. The accounts included in the composite may have (or have had) different investment objectives and strategies, been subject to different restrictions, and incurred different types of fees, markups, commissions and other charges. Accordingly, performance results may blend the performance of assets and strategies that may not have been available in all of the accounts at all times during the reporting period. In addition, accounts in the composite may have changed from brokerage to advisory or vice versa. Accounts may also have moved from one advisory program to another (including from a discretionary program to a non-discretionary program).

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**Adverse Active Alpha<sup>SM</sup> 2.0** is a patented screening and scoring process designed to help identify high-quality equity and fixed income managers with characteristics that may lead to future outperformance relative to index and peers. While highly ranked managers performed well as a group in our Adverse Active Alpha model back tests, not all of the managers will outperform. Please note

that this data may be derived from back-testing, which has the benefit of hindsight. In addition, highly ranked managers can have differing risk profiles that might not be appropriate for all investors.

Our view is that Adverse Active Alpha is a good starting point and should be used in conjunction with other information. Morgan Stanley Wealth Management's qualitative and quantitative investment manager due diligence process are equally important factors for investors when considering managers for use through an investment advisory program. Factors including, but not limited to, manager turnover and changes to investment process can partially or fully negate a positive Adverse Active Alpha ranking. Additionally, highly ranked managers can have differing risk profiles that might not be appropriate for all investors.

The proprietary **Value Score** methodology considers an active investment strategies' value proposition relative to its costs. From a historical quantitative study of several quantitative markers, Value Score measures perceived forward-looking benefit and computes (1) "fair value" expense ratios for most traditional investment managers across 40 categories and (2) managers' perceived "excess value" by comparing the fair value expense ratios to actual expense ratios. Managers are then ranked within each category by their excess value to assign a Value Score. Our analysis suggests that greater levels of excess value have historically corresponded to attractive subsequent performance.

For more information on the ranking models, please see *Adverse Active Alpha<sup>SM</sup> 2.0: Scoring Active Managers According to Potential Alpha* and *Value Score: Scoring Fee Efficiency by Comparing Managers' "Fair Value" and Actual Expense Ratios*. The whitepapers are available from your Financial Advisor or Private Wealth Advisor. ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

Additionally, highly ranked managers can have differing risk profiles that might not be appropriate for all investors. For more information on AAA, please see the Adverse Active Alpha Ranking Model and Selecting Managers with Adverse Active Alpha whitepapers. The whitepaper are available from your Financial Advisor or Private Wealth Advisor. ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

**The Global Investment Manager Analysis (GIMA) Services Only Apply to Certain Investment Advisory Programs** GIMA evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any GIMA Status changes even though it may give notice to clients in other programs.

**Strategy May Be Available as a Separately Managed Account or Mutual Fund** Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program. Generally, investment advisory accounts are subject to an annual asset-based fee which is payable monthly in advance (some account types may be billed differently). (The "Fee"). 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 will also pay a separate Morgan Stanley Overlay Manager Fee and any applicable Sub-Manager fees. 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. Overlay Managers or Executing Sub-Managers ("managers") in some of Morgan Stanley's Separately Managed Account ("SMA") programs may affect transactions through broker-dealers other than Morgan Stanley or our affiliates. If your manager trades with another firm, you may be assessed costs by the other firm in addition to Morgan Stanley's fees. Those costs will be included in the net price of the security, not separately reported on trade confirmations or account statements. Certain managers have historically directed most, if not all, of their trades to outside firms. Information provided by managers concerning trade execution away from Morgan Stanley is summarized at: [www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf](http://www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf). For more information, please refer to the ADV Brochure for your program(s), available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or contact your Financial Advisor/Private Wealth Advisor. For example, on an advisory account with a 2.5% annual fee, if the gross annual performance is 6.00%, the compounding effect of the fees will result in a net performance of approximately 3.38% after one year, 10.50% after three years, and 18.10% after five years. **Conflicts of Interest:** GIMA's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by GIMA come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth



Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that GIMA evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, GIMA is responsible for the opinions expressed by GIMA. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to GIMA's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS & Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS & Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account.

Morgan Stanley charges each fund family we offer a mutual fund support fee, also called a "revenue-sharing payment," on client account holdings in fund families according to a tiered rate that increases along with the management fee of the fund so that lower management fee funds pay lower rates than those with higher management fees.

**Consider Your Own Investment Needs:** The model portfolios and strategies discussed in the material are formulated based on general client characteristics including risk tolerance. This material is not intended to be an analysis of whether particular investments or strategies are appropriate for you or a recommendation, or an offer to participate in any investment. Therefore, clients should not use this material as the sole basis for investment decisions. They should consider all relevant information, including their existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. Such a determination may lead to asset allocation results that are materially different from the asset allocation shown in this profile. Talk to your Financial Advisor about what would be an appropriate asset allocation for you, whether CGCM is an appropriate program for you.

**No obligation to notify** – Morgan Stanley Wealth Management has no obligation to notify you when the model portfolios, strategies, or any other information, in this material changes.

**Please consider the investment objectives, risks, fees, and charges and expenses of mutual funds, ETFs, closed end funds, unit investment trusts, and variable insurance products carefully before investing. The prospectus contains this and other information about each fund. To obtain a prospectus, contact your Financial Advisor or Private Wealth Advisor or visit the Morgan Stanley website at [www.morganstanley.com](http://www.morganstanley.com). Please read it carefully before investing.**

***An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.***

The type of mutual funds and ETFs discussed in this presentation utilizes nontraditional or complex investment strategies and/or derivatives. Examples of these types of funds include those that utilize one or more of the below noted investment strategies or categories or which seek exposure to the following markets: (1) commodities (e.g., agricultural, energy and metals), currency, precious metals; (2) managed futures; (3) leveraged, inverse or inverse leveraged; (4) bear market, hedging, long-short equity, market neutral; (5) real estate; (6) volatility (seeking exposure to the CBOE VIX Index). Investors should keep in mind that while mutual funds and ETFs may, at times, utilize nontraditional investment options and strategies, they should not be equated with unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment exposure must utilize a more limited investment universe. As a result, investment returns and portfolio characteristics of alternative mutual funds and ETFs may vary from traditional hedge funds pursuing similar investment objectives. Moreover, traditional hedge funds have limited liquidity with long "lock-up" periods allowing them to pursue investment strategies without having to factor in the need to meet client redemptions and ETFs trade on an exchange. On the other hand, mutual funds typically must meet daily client redemptions. This differing liquidity profile can have a material impact on the investment returns generated by a mutual fund or ETF pursuing an alternative investing strategy compared with a traditional hedge fund pursuing the same strategy.

Nontraditional investment options and strategies are often employed by a portfolio manager to further a fund's investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund's essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or "leverage."

The Morgan Stanley Digital Vault ("Digital Vault") is accessible to clients with dedicated Financial Advisors. Documents shared via the Digital Vault should be limited to those relevant to your Morgan Stanley account relationship. Uploading a document to the Digital Vault does not obligate us to review or take any action on it, and we will not be liable for any failure to act upon the contents of such document. Please contact your Financial Advisor or Branch Management to discuss the appropriate process for providing the document to us for review. If you maintain a Trust or entity account with us,



only our certification form will govern our obligations for such account. Please refer to the Morgan Stanley Digital Vault terms and conditions for more information.

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## KEY ASSET CLASS CONSIDERATIONS AND OTHER RISKS

Investing in the markets entails the risk of market volatility. The value of all types of investments, including stocks, mutual funds, exchange-traded funds ("ETFs"), closed-end funds, and unit investment trusts, may increase or decrease over varying time periods. To the extent the investments depicted herein represent **international securities**, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in **emerging markets and frontier markets**. **Small- and mid-capitalization companies** may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies. The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer. **High yield bonds** are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. In the case of **municipal bonds**, income is generally exempt from federal income taxes. Some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. **Treasury Inflation Protection Securities' (TIPS)** coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation. There is no guarantee that investors will receive par if TIPS are sold prior to maturity. The returns on a portfolio consisting primarily of **environmental, social, and governance-aware investments ("ESG")** may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. The companies identified and investment examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the approaches taken by managers who focus on ESG criteria in their investment strategy. There can be no guarantee that a client's account will be managed as described herein. **Options** and margin trading involve substantial risk and are not appropriate for all investors. Besides the general investment risk of holding securities that may decline in value and the possible loss of principal invested, **closed-end funds** may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance and potential leverage. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount from their NAV which may increase investors' risk of loss. The risk of loss due to this discount may be greater for investors expecting to sell their shares in a relatively short period after completion of the public offering. This characteristic is a risk separate and distinct from the risk that a closed-end fund's net asset value may decrease as a result of investment activities. NAV is

total assets less total liabilities divided by the number of shares outstanding. At the time an investor purchases or sells shares of a closed-end fund, shares may have a market price that is above or below NAV. 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.

**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; Risks associated with the operations, personnel, and processes of the manager; and Risks associated with cybersecurity. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. All expressions of opinion are subject to change without notice and are not intended to be a forecast of future events or results. Further, opinions expressed herein may differ from the opinions expressed by Morgan Stanley Wealth Management and/or other businesses/affiliates of Morgan Stanley Wealth Management. This is not a "research report" as defined by FINRA Rule 2241 or a "debt research report" as defined by FINRA Rule 2242 and was not prepared by the Research Departments of Morgan Stanley Smith Barney LLC or Morgan Stanley & Co. LLC or its affiliates. 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. While the HFRI indices are frequently used, they have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. Composite index results are shown for illustrative purposes and do not represent the performance of a specific investment. Individual funds have specific tax 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. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Wealth Management and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley Wealth Management or any of its affiliates, (3) are not guaranteed by Morgan Stanley Wealth Management and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Wealth Management is a registered broker-dealer, not a bank. This material is not to be reproduced or distributed to any other persons (other than professional advisors of the investors or prospective investors, as applicable, receiving this material) and is intended solely for the use of the persons to whom it has been delivered. This material is not for distribution to the general public. Past performance is no guarantee of future results. Actual results may vary. SIPC insurance does not apply to precious metals, other commodities, or traditional alternative investments. In Consulting Group's advisory programs, alternative investments are limited to US-registered mutual funds, separate account strategies and exchange-traded funds (ETFs) that seek to pursue alternative investment strategies or returns utilizing publicly traded securities. Investment products in this category 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. Alternative investments are not appropriate for all investors. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. 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.

A majority of Alternative Investment managers reviewed and selected by GIMA pay or cause to be paid an ongoing fee for distribution from their management fees to Morgan Stanley Wealth Management in connection with Morgan Stanley Wealth Management clients that purchase an interest in an Alternative Investment and in some instances pay these fees on the investments held by investments held by brokerage clients. Morgan Stanley Wealth Management has a conflict of interest in offering alternative investments because Morgan Stanley Wealth Management or our affiliates, in most instances, earn more money in your account from your investments in alternative investments than from other investment options.

It should be noted that the majority of hedge fund indexes are comprised of hedge fund manager returns. This is in contrast to traditional indexes, which are comprised of individual securities in the various market segments they represent and offer complete transparency as to membership and construction methodology. As such, some believe that hedge fund index returns have certain biases that are not present in traditional indexes. Some of these biases inflate index performance, while others may skew performance negatively. However, many studies indicate that overall hedge fund index performance has been biased to the upside. Some studies suggest performance has been inflated by up to 260 basis points or more annually depending on the types of biases included and the time period studied. Although there are numerous potential biases that could affect hedge fund returns, we identify some of the more common ones throughout this paper.

Self-selection bias results when certain manager returns are not included in the index returns and may result in performance being skewed up or down. Because hedge funds are private placements, hedge fund managers are able to decide which fund returns they want to report and are able to opt out of reporting to the various databases. Certain hedge fund managers may choose only to report returns for funds with strong returns and opt out of reporting returns for weak performers. Other hedge funds that close may decide to stop reporting in order to retain secrecy, which may cause a downward bias in returns.

Survivorship bias results when certain constituents are removed from an index. This often results from the closure of funds due to poor performance, “blow ups,” or other such events. As such, this bias typically results in performance being skewed higher. As noted, hedge fund index performance biases can result in positive or negative skew. However, it would appear that the skew is more often positive. While it is difficult to quantify the effects precisely, investors should be aware that idiosyncratic factors may be giving hedge fund index returns an artificial “lift” or upwards bias.

**Hedge Funds of Funds** and many funds of funds are private investment vehicles restricted to certain qualified private and institutional 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, 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 and initial lockups. They involve complex tax structures, tax-inefficient investing and delays in distributing important tax information. Categorically, hedge funds and funds of funds have higher fees and expenses than traditional investments, and such fees and expenses can lower the returns achieved by investors. Funds of funds have an additional layer of fees over and above hedge fund fees that will offset returns. An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. An investment in a **target date portfolio** is subject to the risks attendant to the underlying funds in which it invests, in these portfolios the funds are the Consulting Group Capital Market funds. A target date portfolio is geared to investors who will retire and/or require income at an approximate year. The portfolio is managed to meet the investor’s goals by the pre-established year or “target date.” A target date portfolio will transition its invested assets from a more aggressive portfolio to a more conservative portfolio as the target date draws closer. An investment in the target date portfolio is not guaranteed at any time, including, before or after the target date is reached. **Managed futures** investments are speculative, involve a high degree of risk, use significant leverage, are generally illiquid, have substantial charges, subject investors to conflicts of interest, and are appropriate only for the risk capital portion of an investor’s portfolio. Managed futures investments do not replace equities or bonds but rather may act as a complement in a well diversified portfolio. Managed Futures are complex and not appropriate for all investors. **Rebalancing** does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy.

***Buying, selling, and transacting in Bitcoin or other digital assets, and related funds and products, is highly speculative and may result in a loss of the entire investment.*** Risks and considerations include but are not limited to:

- Bitcoin and other digital assets have only been in existence for a short period of time and historical trading prices for Bitcoin and other digital assets have been highly volatile. The price of Bitcoin and other digital assets could decline rapidly, and ***investors could lose their entire investment***.

- Certain digital asset funds and products, including Bitcoin funds and products, allow investors to invest on a more frequent basis than investors may withdraw from the fund or product, and interests in such funds or products are generally not freely transferrable. This means that, particularly given the volatility of digital assets, including Bitcoin, an investor will have to bear any losses with respect to its investment for an extended period of time and will not be able to react to changes in the price of the digital asset once invested (for example, by seeking to withdraw) as quickly as when making the decision

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to invest. Such digital asset funds and products, including Bitcoin funds and products, are intended only for persons who are able to bear the economic risk of investment and who do not need liquidity with respect to their investments.

- Given the volatility in the price of Bitcoin and other digital assets, the net asset value of a fund or product that invests in such assets at the time an investor's subscription for interests in the fund or product is accepted may be significantly below or above the net asset value of the product or fund at the time the investor submitted subscription materials.

- Certain digital assets, apart from Bitcoin, are not intended to function as currencies but are intended to have other use cases. These other digital assets may be subject to some or all of the risks and considerations set forth herein, as well as additional risks applicable to such other digital assets. Buyers, sellers and users of such other digital assets should thoroughly familiarize themselves with such risks and considerations before transacting in such other digital assets.

- The value of Bitcoin and other digital assets may be negatively impacted by future legal and regulatory developments, including but not limited to increased regulation of Bitcoin or such other digital assets. Any such developments may make Bitcoin or such other digital assets less valuable, impose additional burdens and expenses on a fund or product investing in such assets or impact the ability of such a fund or product to continue to operate, which may materially decrease the value of an investment therein.

- Due to the new and evolving nature of digital currencies and the absence of comprehensive guidance, many significant aspects of the tax treatment of digital assets including Bitcoin are uncertain. Prospective investors should consult their own tax advisors concerning the tax consequences to them of the purchase, ownership and disposition of Bitcoin and other digital assets, directly or indirectly through a fund or product, under U.S. federal income tax law, as well as the tax law of any relevant state, local or other jurisdiction.

- Over the past several years, certain Bitcoin exchanges have experienced failures or interruptions in service due to fraud, security breaches, operational problems or business failure. Such events in the future could impact any fund's or product's ability to transact in Bitcoin if the fund or product relies on an impacted exchange and may also materially decrease the price of Bitcoin, thereby impacting the value of your investment, regardless of whether the fund or product relies on such an impacted exchange.

- Although any digital asset product, including a Bitcoin-related product, and its service providers have in place significant safeguards against loss, theft, destruction and inaccessibility, there is nonetheless a risk that some or all of a product's digital asset, including Bitcoin, could be permanently lost, stolen, destroyed or inaccessible by virtue of, among other things, the loss or theft of the "private keys" necessary to access a product's digital asset, including Bitcoin.

- Investors in funds or products investing or transacting in Bitcoin and/or other digital assets may not benefit to the same extent (or at all) from "airdrops" with respect to, or "forks" in, the Bitcoin (or other relevant digital asset's) blockchain, compared to investors who hold Bitcoin (or such other relevant digital asset) directly instead of through a fund or product. Additionally, a "fork" in the Bitcoin blockchain could materially decrease the price of Bitcoin.

- Digital assets such as Bitcoin or other digital asset product is/are not legal tender, and is not backed by any government, corporation or other identified body, other than with respect to certain digital currencies that certain governments are or may be developing now or in the future (of which Bitcoin is *not* one). No law requires companies or individuals to accept digital currency as a form of payment (except, potentially, with respect to digital currencies developed by certain governments where such acceptance may be mandated). Instead, other than as described in the preceding sentences, Bitcoin's and other digital asset products' use is limited to businesses and individuals that are willing to accept them. If no one were to accept digital currencies, Bitcoin and other virtual currency products would very likely become worthless.

- Platforms that buy and sell Bitcoin or other digital assets can be hacked, and some have failed. In addition, like the platforms themselves, digital wallets can be hacked, and are subject to theft and fraud. As a result, like other investors have, you can lose some or all of your holdings of digital assets, including Bitcoin.

- Unlike US banks and credit unions that provide certain guarantees of safety to depositors, there are no such safeguards provided to digital assets, such as Bitcoin, held in digital wallets by their providers or by regulators.

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- Due to the anonymity Bitcoin and other digital assets offer, it has known use in illegal activity, including drug dealing, money laundering, human trafficking, sanction evasion and other forms of illegal commerce. Abuses could impact legitimate consumers and speculators; for instance, law enforcement agencies could shut down or restrict the use of platforms and exchanges, limiting or shutting off entirely the ability to use or trade Bitcoin or other digital asset products.
- Bitcoin and other digital assets may not have an established track record of credibility and trust. Further, any performance data relating to Bitcoin, Bitcoin-related products or other digital asset products may not be verifiable as pricing models are not uniform.
- Investors should be aware of the potentially increased risks of transacting in digital assets, including Bitcoin, relating to the risks and considerations, including fraud, theft, and lack of legitimacy, and other aspects and qualities of digital assets, before transacting in such assets.
- The exchange rate of Bitcoin or other virtual currency products versus the USD historically has been very volatile and the exchange rate could drastically decline. For example, the exchange rate of Bitcoin versus the USD has in the past dropped more than 50% in a single day. Bitcoin may be affected by such volatility as well.
- Digital asset exchanges have limited operating and performance histories and are not regulated with the same controls or customer protections available to more traditional exchanges transacting equity, debt, and other assets and securities. There is no assurance that a person/exchange who currently accepts a digital asset as payment will continue to do so in the future.
- The regulatory framework of digital assets is evolving, and in some cases uncertain, and digital assets themselves may not be governed and protected by applicable securities regulators and securities laws, including, but not limited to, Securities Investor Protection Corporation coverage, or other regulatory regimes.
- Morgan Stanley Smith Barney LLC or its affiliates (collectively, "Morgan Stanley") may currently, or in the future, offer or invest in digital asset products, services or platforms. The proprietary interests of Morgan Stanley may conflict with your interests.
- The foregoing list of considerations and risks are not and do not purport to be a complete enumeration or explanation of the risks involved in an investment in the any product or fund investing or trading in Bitcoin and/or other digital assets.

**Asset allocation and diversification** do not assure a profit or protect against loss in declining financial markets. Past performance is no guarantee of future results. Actual results may vary.

**Tax laws are complex and subject to change.** Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in writing by Morgan Stanley and/or as described at [www.morganstanley.com/disclosures/doI](http://www.morganstanley.com/disclosures/doI). Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

Annuities and insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates.

Indices are unmanaged and investors cannot directly invest in them. They are not subject to expenses or fees and are often comprised of securities and other investment instruments the liquidity of which is not restricted. A particular investment product may consist of securities significantly different than those in any index referred to herein. Composite index results are shown for illustrative purposes only, generally do not represent the performance of a specific investment, may not, for a variety of reasons, be an appropriate comparison or benchmark for a particular investment and may not necessarily reflect the actual investment strategy or objective of a particular investment. Consequently, comparing an investment to a particular index may be of limited use.

This material is not a financial plan and does not create an investment advisory relationship between you and your Morgan Stanley Financial Advisor. We are not your fiduciary either under the Employee Retirement Income Security Act of 1974 (ERISA) or the Internal Revenue Code of 1986, and any information in this report is not intended to form the primary basis for any investment decision by you, or an investment advice or recommendation for either ERISA or Internal Revenue Code purposes. Morgan Stanley Private Wealth Management will only prepare a financial plan at your specific request using Private Wealth Management approved financial planning signature.

We may act in the capacity of a broker or that of an advisor. As your broker, we are not your fiduciary and our interests may not always be identical to yours. Please consult with your Private Wealth Advisor to discuss our obligations to disclose to you any conflicts we may from time to time have and our duty to act in your best interest. We may be paid both by you and by others who compensate us based on what you buy. Our compensation, including that of your Private Wealth Advisor, may vary by product and over time.

Investment and services offered through Morgan Stanley Private Wealth Management, a division of Morgan Stanley Smith Barney LLC, Member SIPC.

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

**GLOBAL INVESTMENT COMMITTEE (GIC) ASSET ALLOCATION MODELS:** The Asset Allocation Models are created by Morgan Stanley Wealth Management's GIC.

**HYPOTHETICAL MODEL PERFORMANCE (GROSS):** Hypothetical model performance results do not reflect the investment or performance of an actual portfolio following a GIC Strategy, but simply reflect actual historical performance of selected indices on a real-time basis over the specified period of time representing the GIC's strategic and tactical allocations as of the date of this report. The past performance shown here is simulated performance based on benchmark indices, not investment results from an actual portfolio or actual trading. There can be large differences between hypothetical and actual performance results achieved by a particular asset allocation or trading strategy. Hypothetical performance results do not represent actual trading and are generally designed with the benefit of hindsight. Actual performance results of accounts vary due to, for example, market factors (such as liquidity) and client-specific factors (such as investment vehicle selection, timing of contributions and withdrawals, restrictions and rebalancing schedules). Clients would not necessarily have obtained the performance results shown here if they had invested in accordance with any GIC Asset Allocation Model for the periods indicated. Despite the limitations of hypothetical performance, these hypothetical performance results allow clients and Financial Advisors to obtain a sense of the risk/return trade-off of different asset allocation constructs. The hypothetical performance results in this report are calculated using the returns of benchmark indices for the asset classes, and not the returns of securities, fund or other investment products. Models may contain allocations to Hedge Funds, Private Equity and Private Real Estate. The benchmark indices for these asset classes are not issued on a daily basis. When calculating model performance on a day for which no benchmark index data is issued, we have assumed straight line growth between the index levels issued before and after that date.

**FEES REDUCE THE PERFORMANCE OF ACTUAL ACCOUNTS:** None of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, fees) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models. The GIC Asset Allocation Models and any model performance included in this presentation are intended as educational materials. Were a client to use these models in connection with investing, any investment decisions made would be subject to transaction and other costs which, when compounded over a period of years, would decrease returns. Information regarding Morgan Stanley's standard advisory fees is available in the Form ADV Part 2, which is available at [www.morganstanley.com/adv](http://www.morganstanley.com/adv). The following hypothetical illustrates the compound effect fees have on investment returns: For example, if a portfolio's annual rate of return is 15% for 5 years and the account pays 50 basis points in fees per annum, the gross cumulative five-year return would be 101.1% and the five-year return net of fees would be 96.8%. Fees and/or expenses would apply to clients who invest in investments in an account based on these asset allocations, and would reduce clients' returns. The impact of fees and/or expenses can be material.

**Variable annuities** are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees, including optional benefits, are based on the financial strength and claims-paying ability of the issuing insurance company and do not apply to the underlying investment options. Optional riders may not be able to be purchased in combination and are available at an additional cost. Some optional riders must be elected at time of purchase. Optional riders may be subject to specific limitations, restrictions, holding periods, costs, and expenses as specified by the insurance company in the annuity contract. If you are investing in a **variable annuity** through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection. Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value.

**Equity securities** may fluctuate in response to news on companies, industries, market conditions and general economic environment. **Ultrashort-term fixed income** asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

**Master Limited Partnerships (MLPs)** are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Individual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk. The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal income tax purposes and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a



reduction of the fund's value. MLPs carry interest rate risk and may underperform in a rising interest rate environment. MLP funds accrue deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investments; this deferred tax liability is reflected in the daily NAV, and, as a result, the MLP fund's after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

**Investing in commodities** entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention. **Physical precious metals** are non-regulated products. Precious metals are speculative investments, which may experience short-term and long term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be appropriate for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor.

**REITs** investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions. Risks of **private real estate** include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage. Principal is returned on a monthly basis over the life of a **mortgage-backed security**. Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds. **Asset-backed securities** generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally because of prepayments.

**Yields** are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision. **Credit ratings** are subject to change. **Duration**, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. 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. The initial interest rate on a **floating-rate security** may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk. The market value of **convertible bonds** and the underlying common stock(s) will fluctuate and after purchase may be worth more or less than original cost. If sold prior to maturity, investors may receive more or less than their original purchase price or maturity value, depending on market conditions. Callable bonds may be redeemed by the issuer prior to maturity. Additional call features may exist that could affect yield. 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.

Companies paying **dividends** can reduce or cut payouts at any time.

**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. The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time. 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.

Any type of **continuous or periodic investment plan** does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels.

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**SMA/WRAP Fee:** Overlay Managers or Executing Sub-Managers ("managers") in some of Morgan Stanley's Separately Managed Account ("SMA") programs may affect transactions through broker-dealers other than Morgan Stanley or our affiliates. If your manager trades with another firm, you may be assessed costs by the other firm in addition to Morgan Stanley's fees. Those costs will be included in the net price of the security, not separately reported on trade confirmations or account statements. Certain managers have historically directed most, if not all, of their trades to outside firms. Information provided by managers concerning trade execution away from Morgan Stanley is summarized at: [www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf](http://www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf). For more information on trading and costs, please refer to the ADV Brochure for your program(s), available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV), or contact your Financial Advisor/Private Wealth Advisor.

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## GENERAL DEFINITIONS

**Dollar-Weighted Return (Internal Rate of Return):** A return calculation that measures the actual performance of a portfolio over the reporting period. Since dollar weighted returns include the impact of client contributions and withdrawals, they should not be compared to market indices or used to evaluate the performance of a manager, but can be used to evaluate progress toward investment goals.

**Gross of Fees:** Performance results depicted as "gross" of fees do not reflect the deduction of any wrap fee, investment management fee, trade commissions, and/or other account fees. Your actual returns are lower after deducting these expenses. Please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 Brochure for advisory accounts and/or any applicable brokerage account trade confirmation statements for a full disclosure of the applicable charges, fees and expenses. Your Financial Advisor will provide those documents to you upon request.

**Investment Earnings:** A combination of the income received and total portfolio value increase or decrease, excluding net contributions and withdrawals, over the reporting period.

**Net Contributions/Withdrawals:** The net value of cash and securities contributed to or withdrawn from the account(s) during the reporting period. Net contributions and withdrawals may include advisory fees for advisory accounts.

**Net Invested Capital:** A combination of the total portfolio value and the net contributions/withdrawals over the reporting period.

**Net of Fees:** Performance results depicted as "net" of fees shall mean that any wrap fee, investment management fees, trade commissions, and/or other account fees have been deducted. Any other fees or expenses associated with the account, such as third party custodian fees, may not have been deducted. Please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 Brochure for advisory accounts and/or any applicable brokerage account trade confirmation statements for a full disclosure of the applicable charges, fees and expenses. Your Financial Advisor will provide those documents to you upon request.

**Performance ineligible assets:** Performance returns are not calculated for certain assets because accurate valuations and transactions for these assets are not processed or maintained by Morgan Stanley Smith Barney LLC. Common examples include life insurance and annuities as well as Manually Added and External accounts, assets and liabilities.

**Time-Weighted Return:** A return calculation that measures the investment performance of a portfolio over the reporting period. Time weighted returns do not include the impact of client contributions and withdrawals and therefore, may not reflect the actual rate of return the client received. Time weighted returns isolate investment actions and can be compared to benchmarks and used to evaluate the performance of a manager.

**Total Value:** "Total Value" represents the Market Value of the portfolio or Asset Class referenced and includes the accrual of interest and dividends. Total Value in the Asset Allocation view prior to January 2014 does not reflect the accrual of interest and dividends. Total Value for Morgan Stanley & Co. and External accounts also does not include accrued interest and dividends.

## BENCHMARK DEFINITIONS

**Balanced World 60W 30 10:** The current allocation is comprised of 30.00% BC Gov/Cr Intm, 10.00% FTSE Treasury Bill 3 Month, 60.00% MSCI World Gross.

**FTSE Treasury Bill 3 Month:** Equal dollar amounts of three-month Treasury bills are purchased at the beginning of each of three consecutive months. As each bill matures, all proceeds are rolled over or reinvested in a new three-month bill. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value. The yield curve average is the basis for calculating the return on the index. The index is rebalanced monthly by market capitalization. The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interest earned. T-bills are issued in denominations of \$10,000



## NC HIGH SCHOOL ATHLETIC ASSOC INC

Prepared on November 16, 2021 | Reporting Currency: USD

auction and \$1,000 increments thereafter.

**MSCI World Gross:** The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity performance of developed markets. The MSCI World Index consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States (as of June 2014).

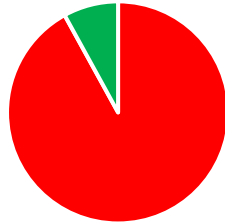
**BC Gov/Cr Intm:** The Barclays Government/Credit Bond Index contains bonds that are investment grade and that have at least one year to maturity. The Barclays Intermediate Government/Credit Bond Index is composed primarily of bonds covered by the Barclays Government/Credit Bond Index with maturities between one and 9.99 years.

# NCHSAA Endowment Spending Basics

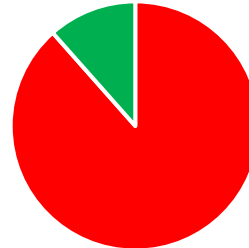
Endowments are perpetual in nature and strive to invest and grow in value providing an increasing level of distributions.



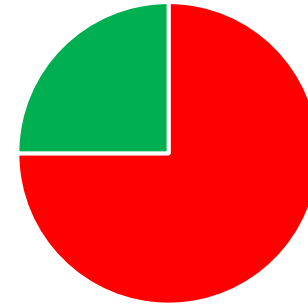
■ Corpus ■ Earnings



■ Corpus ■ Earnings



■ Corpus ■ Earnings

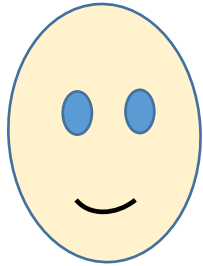


■ Corpus ■ Earnings

*Over the long-term an  
Endowment may pay out  
significantly more than put in.*



# Donor Intent



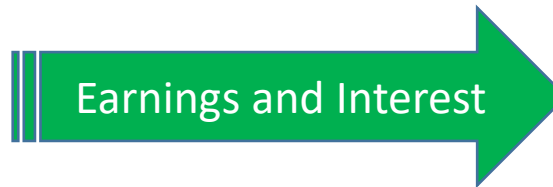
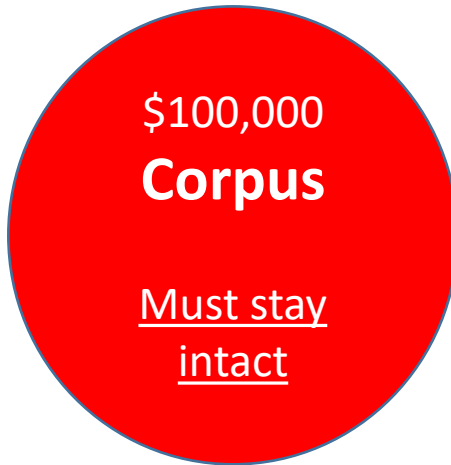
John Smith  
1331 Somewhere St  
Chapel Hill NC

John Smith Endowment \$100,00.00

One hundred thousand dollars and 00/100's

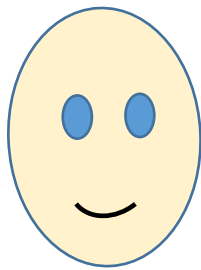
Lacrosse Scholarship

John Smith



*Must adhere to the Uniform Management of Institutional Funds Act which became law in North Carolina in 2009*

# Donor Intent



John Smith  
1331 Somewhere St  
Chapel Hill NC

NCHSAA \$100,00.00

*One hundred thousand dollars and 00/100's*

NCHSAA Endowment John Smith

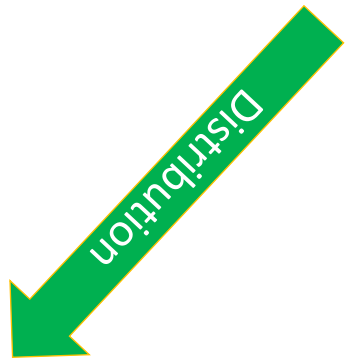
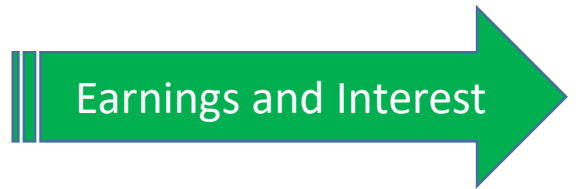
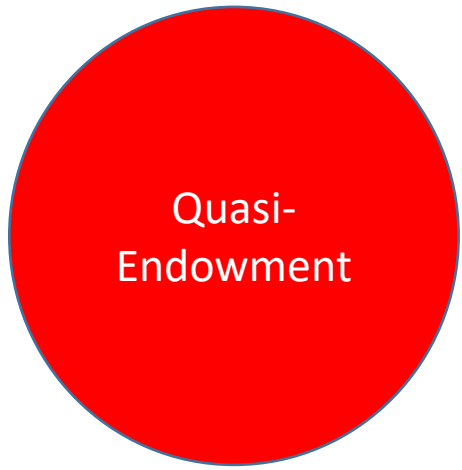
\$100,000  
**Corpus**

Must stay  
intact

Earnings and Interest

**Unrestricted**

Board designates  
use



John Smith Endowment NCHSAA  
1331 Somewhere St  
Chapel Hill NC

Scholarships \_\_\_\_\_ \$4,000  
*Four thousand dollars and 00/100's*

Lacrosse Scholarship  
NCHSAA

John Smith Endowment NCHSAA  
1331 Somewhere St  
Chapel Hill NC

Health and Safety \_\_\_\_\_ \$4,000  
*Four thousand dollars and 00/100's*

Lacrosse Scholarship  
NCHSAA

John Smith Endowment NCHSAA  
1331 Somewhere St  
Chapel Hill NC

Awards \_\_\_\_\_ \$4,000  
*Four thousand dollars and 00/100's*

Lacrosse Scholarship  
NCHSAA

Goal is to fund scholarship at a rate of 5%  
Excess growth to allow distributions to keep pace with inflation.



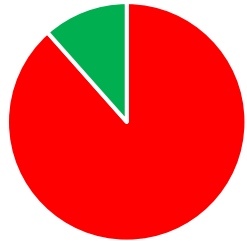
■ Corpus ■ Earnings



John Smith Endowment NCHSAA  
1331 Somewhere St  
Chapel Hill NC

Lucky Lacrosse Player \$5,000  
*Four thousand dollars and 00/100's*

Lacrosse Scholarship  
NCHSAA



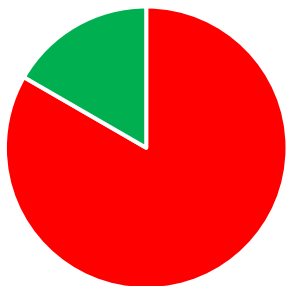
■ Corpus ■ Earnings



John Smith Endowment NCHSAA  
1331 Somewhere St  
Chapel Hill NC

Lucky Lacrosse Player \$5,500  
*Four thousand two hundred and fifty dollars and 00/100's*

Lacrosse Scholarship NCHSAA



■ Corpus ■ Earnings

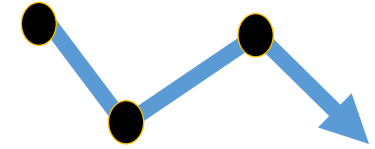


John Smith Endowment NCHSAA  
1331 Somewhere St  
Chapel Hill NC

Lucky Lacrosse Player \$6,000  
*Four thousand five dollars and 00/100's*

Lacrosse Scholarship NCHSAA

# Returns and Account Values Fluctuate



■ Corpus ■ Earnings

Distribute All Earnings

John Smith Endowment NCHSAA 1331 Somewhere St Chapel Hill NC	
Lucky Lacrosse Player	\$10,000
<i>Ten thousand dollars and 00/100's</i>	
Lacrosse Scholarship	
<i>NCHSAA</i>	



■ Corpus ■ Earnings

No Earnings



## Using Three Year Account Averages to Smooth Distributions



# Primary Considerations for Spending

**Corpus**

Must stay  
intact

## Restrictions

Purpose  
Time  
Amount...

Are there enough earnings available to support distributions?

What level of distribution is prudent?

---

Are there restrictions or stated gift levels that impact distributions?

---

Three year average value of endowed funds.

