

## Custom Report

Prepared on April 22, 2022 for:

**NC HIGH SCHOOL ATHLETIC ASSOC INC**

Account No. 760-XXX745

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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

General Endowment Funds 760-XXX745 - Select UMA

Reporting Currency: USD

| MORGAN STANLEY WEALTH MANAGEMENT       |                |                               |                             |                                         |                              |                            |
|----------------------------------------|----------------|-------------------------------|-----------------------------|-----------------------------------------|------------------------------|----------------------------|
| Account Name                           | Account Number | Account Type/<br>Manager Name | Date Opened/<br>Date Closed | Performance (%)<br>Inception - 04/21/22 | Total Value (\$)<br>04/21/22 | % of Portfolio<br>04/21/22 |
| General Endowment Funds                | 760-XXX745     | Select UMA                    | 10/02/08                    | 9.20                                    | 19,398,449.84                | 100.00                     |
| Morgan Stanley Wealth Management Total |                |                               |                             |                                         | 19,398,449.84                | 100.00                     |
| Total Portfolio                        |                |                               |                             |                                         | 19,398,449.84                | 100.00                     |

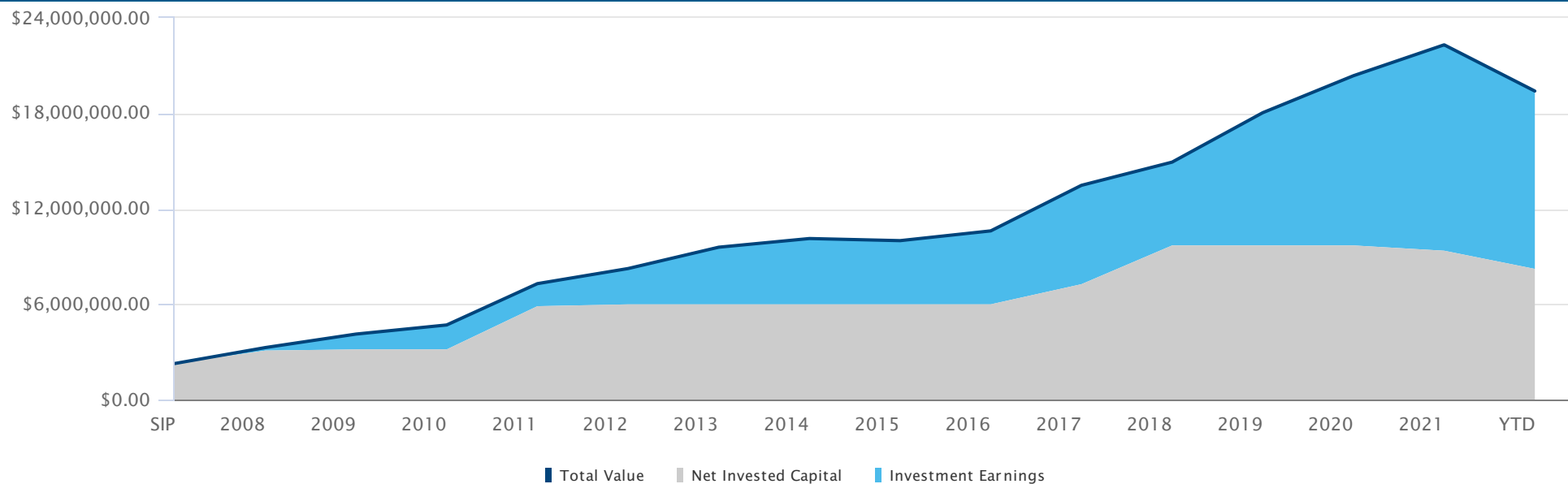
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## CHANGE IN PORTFOLIO VALUE

General Endowment Funds 760-XXX745 - Select UMA

As of April 21, 2022 | Reporting Currency: USD

## CHANGE IN VALUE SINCE PERFORMANCE INCEPTION



## CHANGE IN VALUE

| Year      | Beginning<br>Total Value (\$) | Net Contributions /<br>Withdrawals (\$) | Investment<br>Earnings (\$) | Ending<br>Total Value (\$) |
|-----------|-------------------------------|-----------------------------------------|-----------------------------|----------------------------|
| 2022(YTD) | 22,305,653.63                 | -1,142,639.45                           | -1,764,567.31               | 19,398,446.88              |
| 2021      | 20,363,419.46                 | -332,032.40                             | 2,274,266.57                | 22,305,653.63              |
| 2020      | 18,039,099.19                 | 0.00                                    | 2,324,320.27                | 20,363,419.46              |
| 2019      | 14,929,879.80                 | 0.00                                    | 3,109,219.39                | 18,039,099.19              |
| 2018      | 13,471,224.05                 | 2,436,962.46                            | -978,306.72                 | 14,929,879.80              |
| 2017      | 10,605,937.70                 | 1,265,397.87                            | 1,599,888.49                | 13,471,224.05              |
| 2016      | 9,991,906.45                  | 1,730.04                                | 612,301.21                  | 10,605,937.70              |
| 2015      | 10,124,646.31                 | 698.83                                  | -133,438.69                 | 9,991,906.45               |
| 2014      | 9,578,995.72                  | 0.00                                    | 545,650.59                  | 10,124,646.31              |
| 2013      | 8,237,268.83                  | 0.00                                    | 1,341,726.89                | 9,578,995.72               |

Does not include Performance Ineligible Assets.

## CHANGE IN PORTFOLIO VALUE

General Endowment Funds 760-XXX745 - Select UMA

As of April 21, 2022 | Reporting Currency: USD

## CHANGE IN VALUE (Continued)

| Year                             | Beginning<br>Total Value (\$) | Net Contributions /<br>Withdrawals (\$) | Investment<br>Earnings (\$) | Ending<br>Total Value (\$) |
|----------------------------------|-------------------------------|-----------------------------------------|-----------------------------|----------------------------|
| 2012                             | 7,287,896.57                  | 115,399.76                              | 833,972.50                  | 8,237,268.83               |
| 2011                             | 4,689,883.75                  | 2,718,177.20                            | -120,164.38                 | 7,287,896.57               |
| 2010                             | 4,116,774.86                  | 42.20                                   | 573,066.69                  | 4,689,883.75               |
| 2009                             | 3,268,292.49                  | 71,664.25                               | 776,818.12                  | 4,116,774.86               |
| 2008                             | 2,265,680.40                  | 814,316.21                              | 188,295.88                  | 3,268,292.49               |
| Performance Inception : 10/27/08 |                               |                                         |                             |                            |

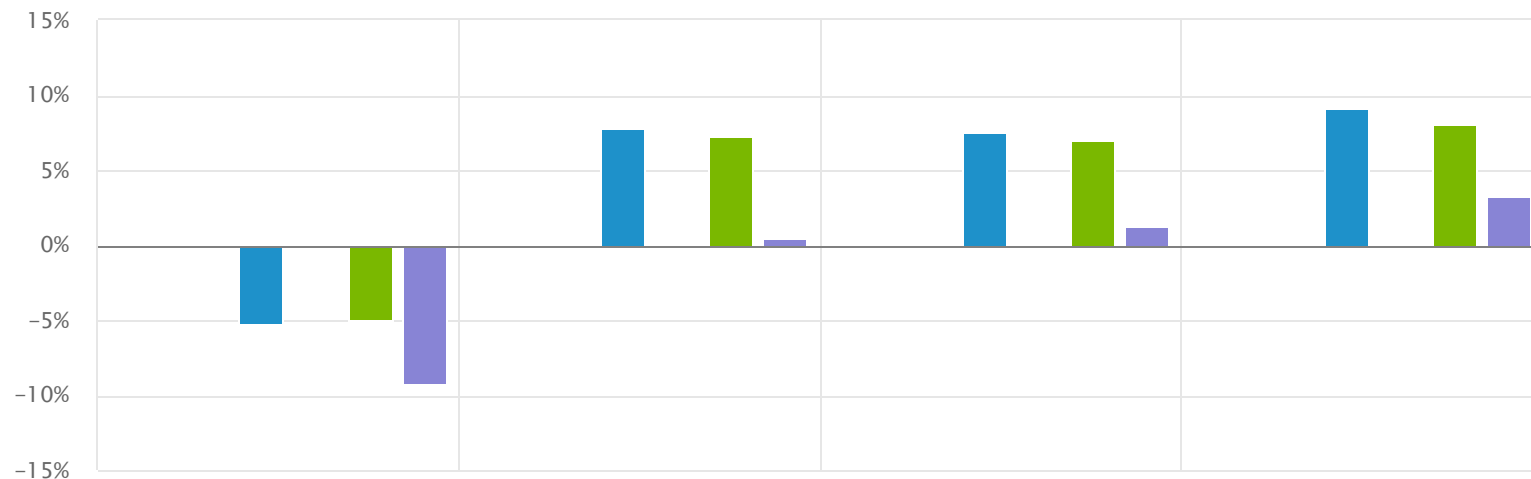
Does not include Performance Ineligible Assets.

## TIME WEIGHTED PERFORMANCE SUMMARY

General Endowment Funds 760-XXX745 - Select UMA

As of April 21, 2022 | Reporting Currency: USD

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



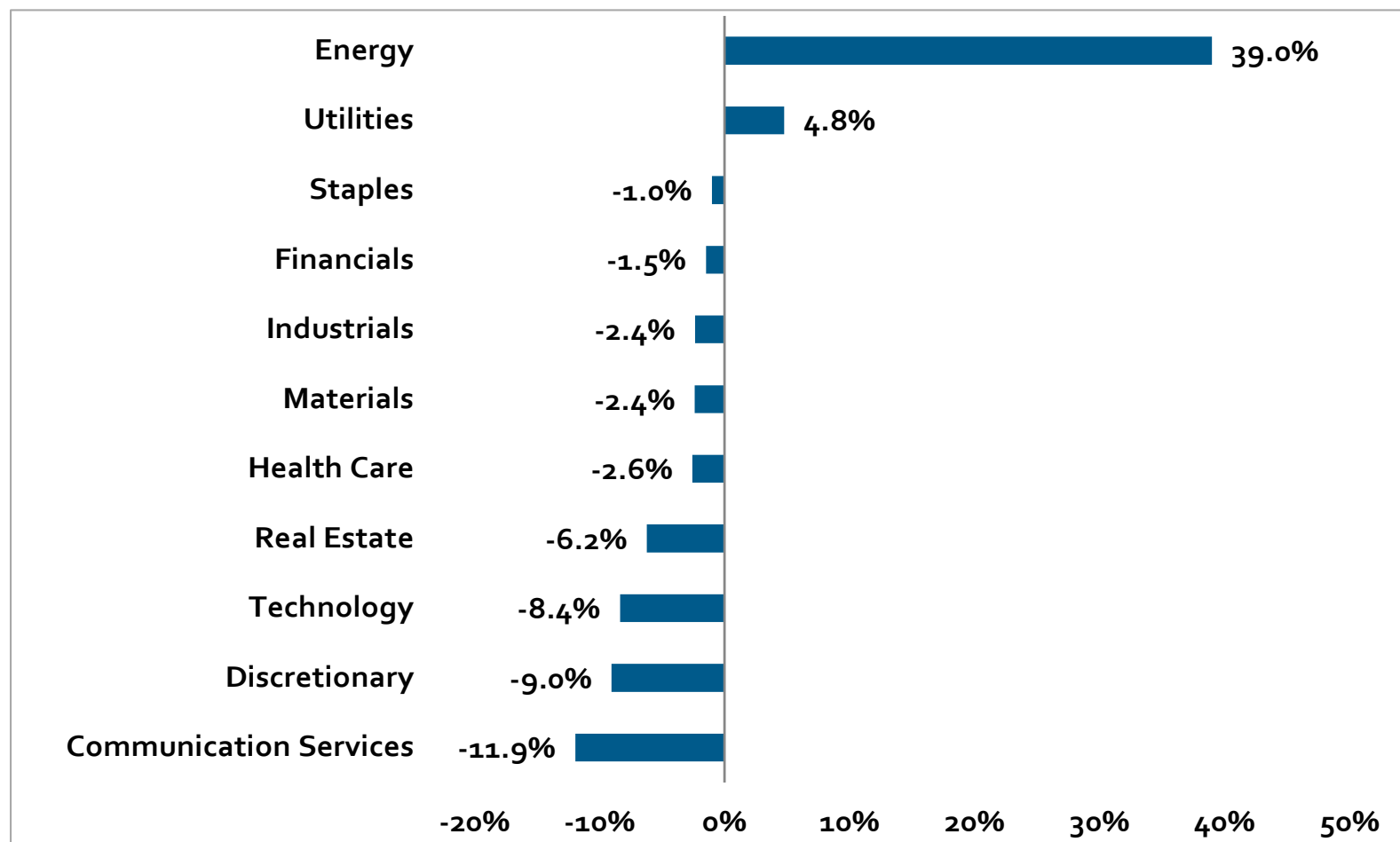
|                                    | Custom Period<br>06/30/21 - 04/21/22 | Last 3 Years<br>04/30/19 - 04/21/22 | Last 5 Years<br>04/30/17 - 04/21/22 | Performance Inception<br>10/27/08 - 04/21/22 |
|------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|----------------------------------------------|
| Beginning Total Value (\$)         | 23,003,489.76                        | 16,800,810.08                       | 11,187,498.69                       | 2,265,680.40                                 |
| Net Contributions/Withdrawals (\$) | -2,511,735.14                        | -1,474,671.85                       | 2,227,688.48                        | 5,949,716.97                                 |
| Investment Earnings (\$)           | -1,093,307.74                        | 4,072,308.65                        | 5,983,259.71                        | 11,183,049.51                                |
| Ending Total Value (\$)            | 19,398,446.88                        | 19,398,446.88                       | 19,398,446.88                       | 19,398,446.88                                |
| Return % (Net of Fees)             | -5.20                                | 7.79                                | 7.60                                | 9.20                                         |
| Custom Account Index (%)           | -                                    | -                                   | -                                   | -                                            |
| Balanced World 60/30/10 (%)        | -5.00                                | 7.22                                | 6.94                                | 8.11                                         |
| Barclays Aggregate (%)             | -9.26                                | 0.45                                | 1.25                                | 3.33                                         |

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.

# S&P 500 Sectors

## YTD Total Return

As of March 31, 2022



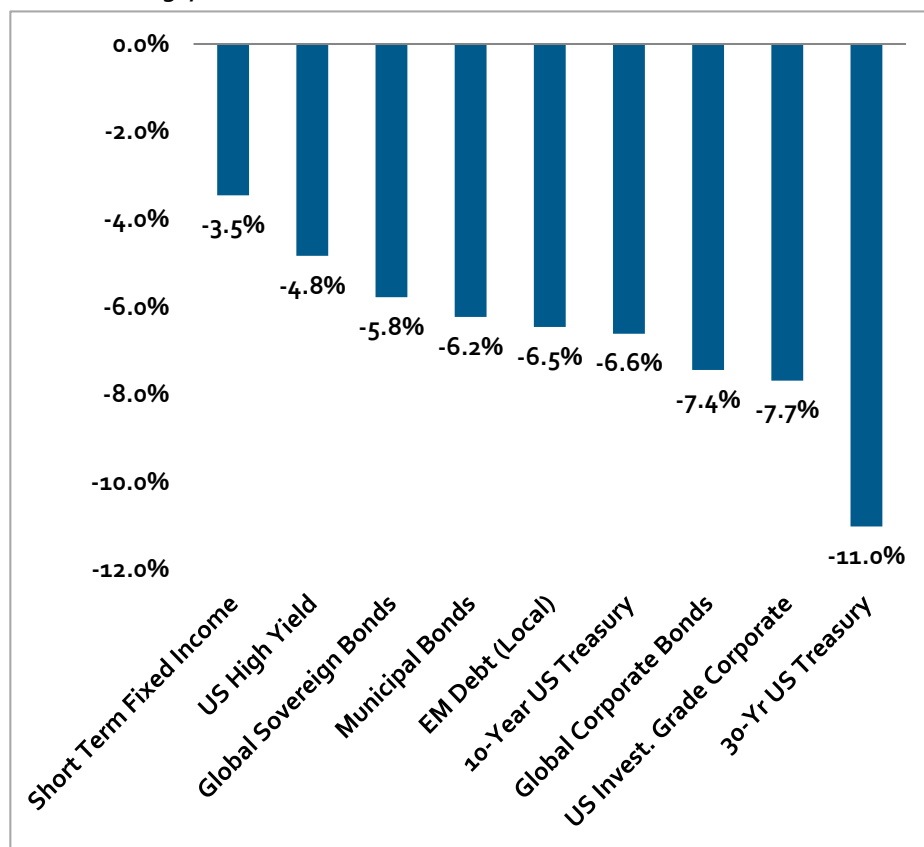
Source: Bloomberg

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# Fixed Income Performance and Spreads

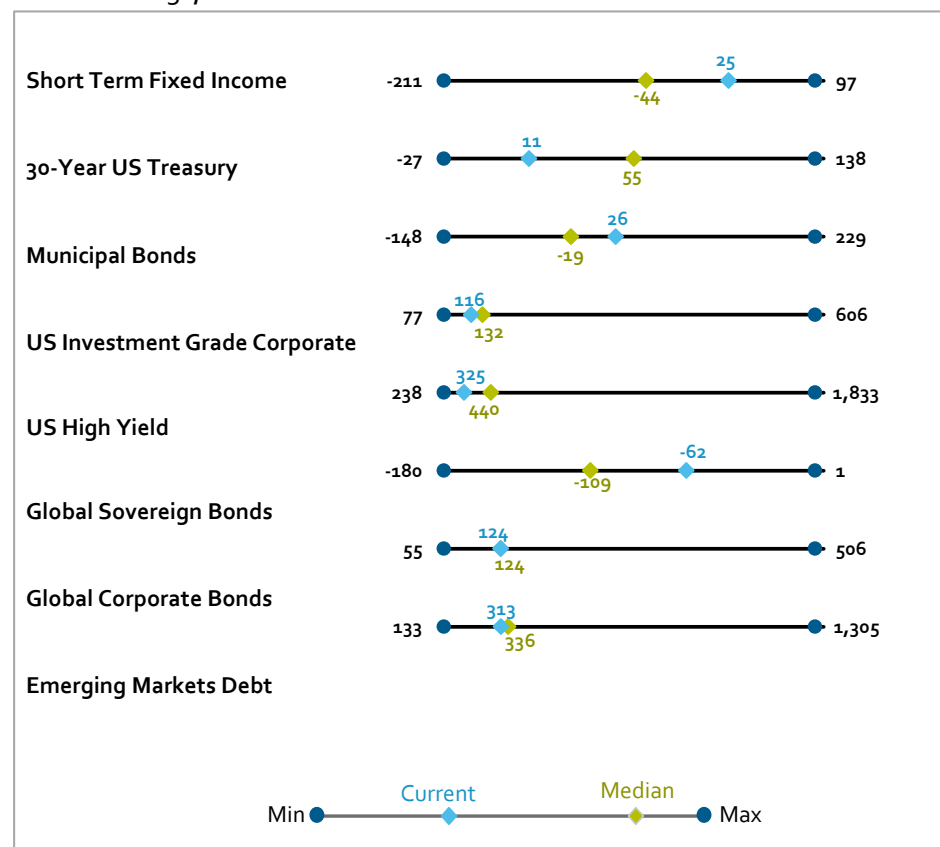
## YTD Total Return <sup>1</sup>

As of March 31, 2022



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

As of March 31, 2022

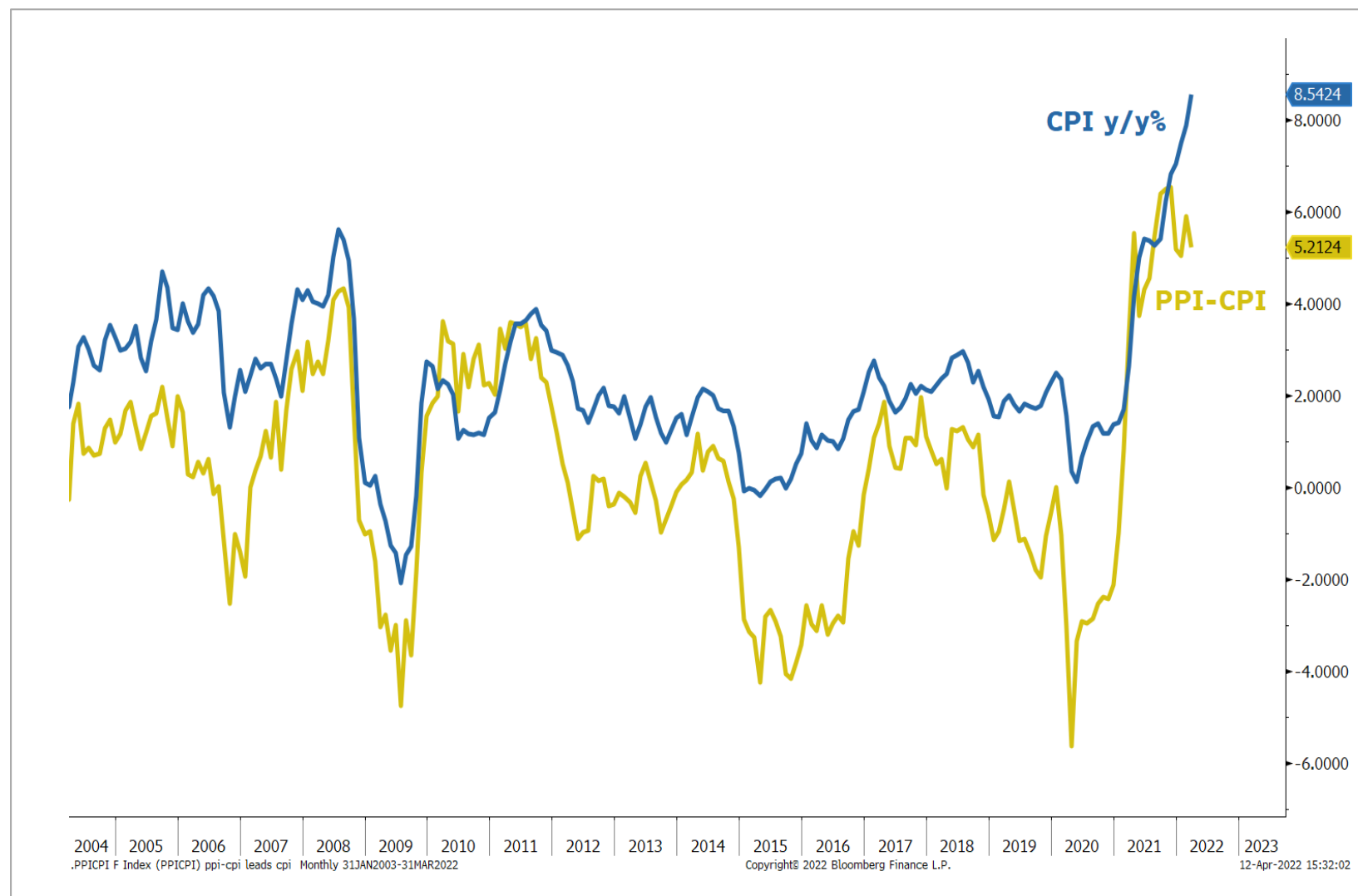


Source: FactSet, Bloomberg, Morgan Stanley Wealth Management GIC. (1) Indices used for this analysis include: Bloomberg US High Yield, Bloomberg BUS Gov/Credit Float Adjusted 1-5Y Bond (short duration), Bloomberg Global Aggregate Credit-Corporate, JP Morgan GBI-EM Global Diversified (EM debt), Bloomberg 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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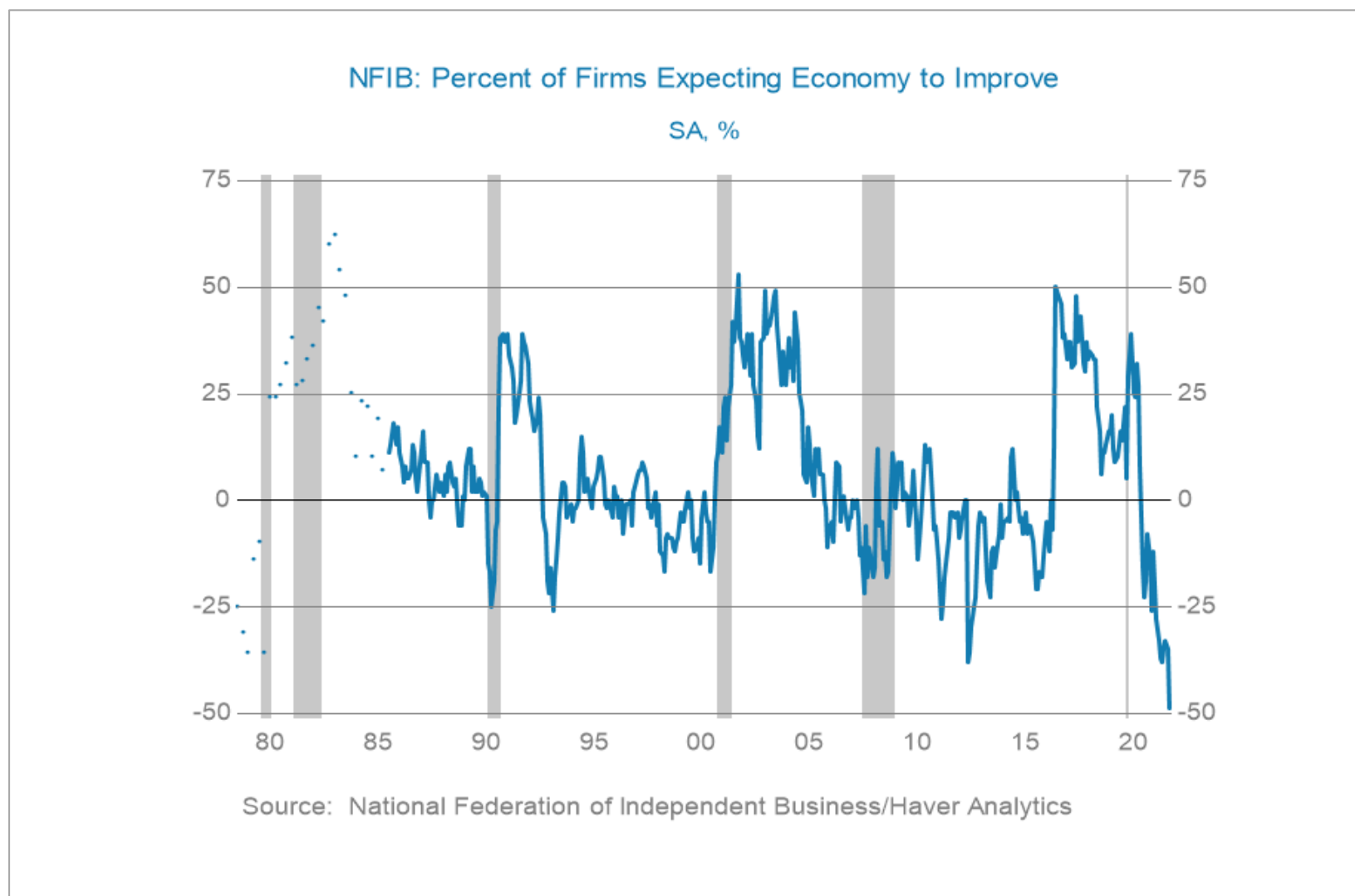
## CPI Has Likely Peaked at This Point and That Means Late Cycle



Source: Haver Analytics, Morgan Stanley & Co. Research as of April 12, 2022

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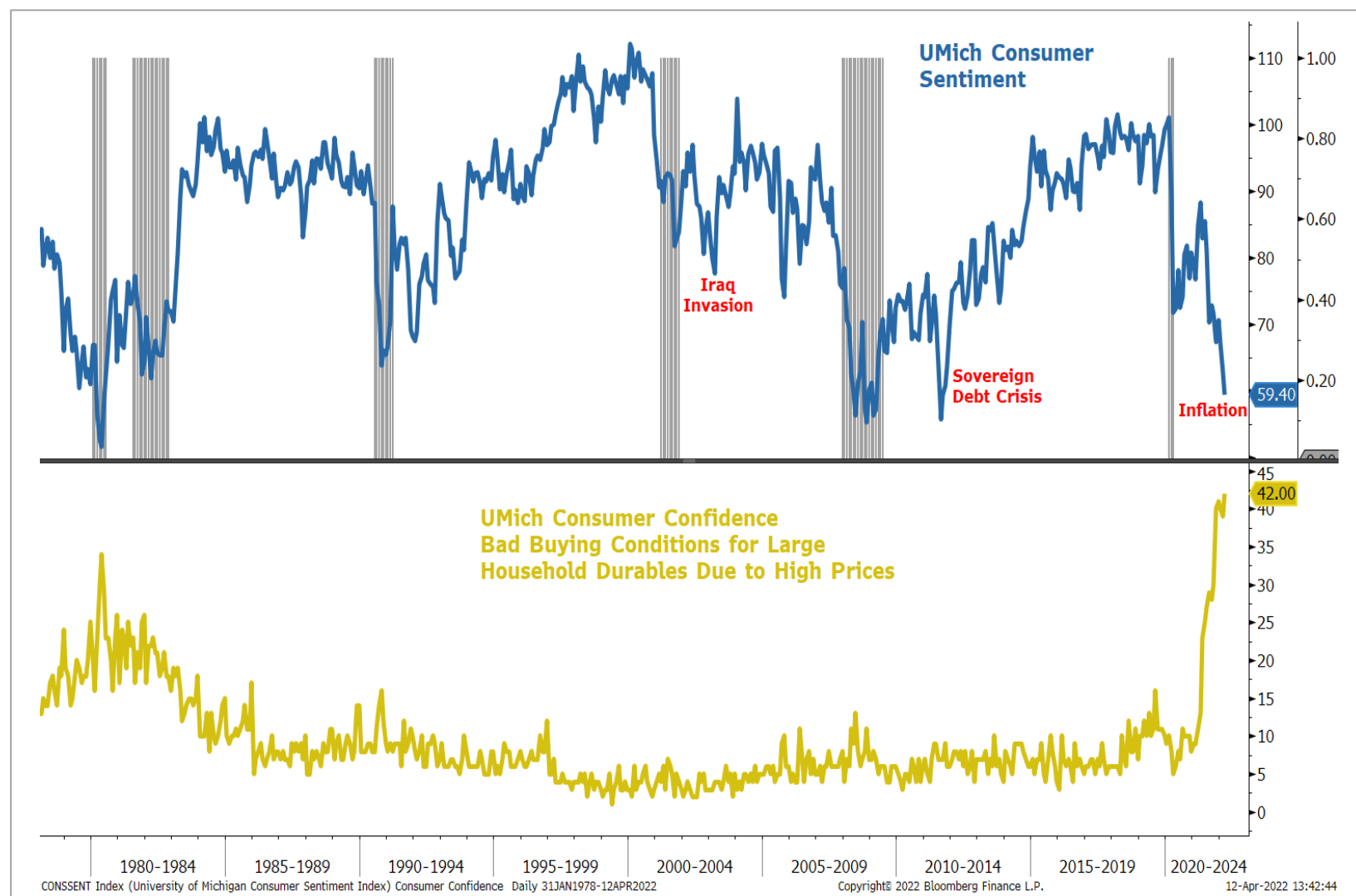
## Small Business Confidence Has Collapsed



Source: Haver Analytics, Morgan Stanley & Co. Research as of March 31, 2022

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## Consumer Confidence Has Also Collapsed...



Source: Bloomberg, Morgan Stanley & Co. Research as of April 12, 2022

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# Global Equity Price Targets

Current Firm Forecasts as of March 20, 2022; Index level data as of March 31, 2022

| As of March 31, 2022     |       | Bear  | Downside | Base <sup>1</sup> | Upside/<br>Downside | Bull  | Upside | Risk/Reward<br>Ratio <sup>2</sup> |
|--------------------------|-------|-------|----------|-------------------|---------------------|-------|--------|-----------------------------------|
| S&P 500                  | 4,530 | 3,900 | -14%     | 4,400             | -3%                 | 5,000 | 10%    | 0.74                              |
| MSCI Europe <sup>3</sup> | 1,820 | 1,320 | -27%     | 1,830             | 1%                  | 2,090 | 15%    | 0.54                              |
| Topix                    | 1,946 | 1,600 | -18%     | 2,250             | 16%                 | 2,450 | 26%    | 1.45                              |
| MSCI EM                  | 1,142 | 1,000 | -12%     | 1,315             | 15%                 | 1,550 | 36%    | 2.88                              |

Source: Morgan Stanley & Co. Research. (1) Base represents Morgan Stanley & Co. Research's estimate between the bear and bull estimates. (2) Risk/reward ratio is the bull estimate divided by the bear estimate. (3) MSCI Europe is represented by MSCI Europe Local Index

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# The Hotter but Shorter Cycle Is Playing Out Across Asset Markets

- **Russian Invasion of Ukraine amplifies the “Fire and Ice”:** The de-rating of asset prices has been ongoing for almost a year, but it remains incomplete, in our view. Peak rate of change in policy and economic/earnings growth has typically coincided with more conservative investment and has ended with a broader equity market correction. Over the past 12 months we have experienced a rolling correction—i.e., bear market—across many asset categories as the breadth of the equity market remains exceptionally weak. We have been expecting the final stage of this rolling correction to end with a 10%-20% correction in the S&P 500 and Nasdaq. That happened in 1Q but remains incomplete.
- **Hotter but shorter cycle is playing out even faster.** This entire recession and recovery has been one of the fastest on record. In fact, based on the data it now looks like we are already late cycle, with recession risks increasing significantly for next year. This late cycle has been confirmed by the very defensive leadership exhibited within equity markets. Yield curve inversion is the bond market’s way of saying we are late cycle and closer to a recession than not. At this point, we recommend buying duration as a hedge against slowing growth/recession.
- **The year of the stock picker.** With tightening financial conditions and slowing growth making this a much more difficult year for stocks, investors are going to have to be better stocks pickers to generate strong returns. The high dispersion between stocks suggests that opportunity is available, if difficult to find in the current environment. We are focused on companies with high operational efficiency and earnings stability in a world of higher inflation and cost of capital. This means low capex, low inventory/sales growth and low labor costs.
- **Stocks and commodities were a good hedge against inflation until now.** Higher inflation drives nominal GDP higher, which can be good for earnings growth and therefore, stocks. However, food and energy inflation from the conflict in Ukraine has the effect of a tax on the consumer that hurts more stocks than it helps. It can also challenge demand for commodities. In short, we are now into the bad part of inflation for stocks and even commodities potentially on a cyclical basis.
- **Inflation Is the key to the *secular* bull market for stocks and bear market for bonds.** The shift in policy from monetary to fiscal dominance is a significant change that has implications for our asset allocation recommendations. A potential US recession was always a necessary condition for this outcome and the health-crisis nature of this event further supported this regime shift. Finally, other inflationary trends were well established before the latest recession began—populism, nationalism, de-globalization, and now a major conflict that removes the second largest exporter of oil from the market. One party control of the US government tends to accelerate and implement these policy changes.

Source: Morgan Stanley & Co. Research.

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For Morgan Stanley Smith Barney LLC accounts, performance information may cover the full history of the account(s) or just the performance of an account(s) since the inception of the current program(s). Performance results on individual accounts will vary and may differ from the composite returns. Your Financial Advisor can provide you with individual account portfolio composition and performance information. For investment advisory accounts, please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 or applicable disclosure brochure and any applicable brokerage commission and/or fee schedule for a full disclosure of fees and expenses. Your Financial Advisor will provide those documents to you upon request. For brokerage accounts, please speak to your Financial Advisor for more information on commissions and other account fees and expenses.

Performance inception date does not necessarily correspond to the account opening date. Where multiple accounts are included in performance calculations, the inception date is the oldest performance inception. Performance data may not be available for all periods as some accounts included in performance may have more recent performance inception dates. Consequently, the actual performance for a group of accounts may differ from reported performance. Please ask your Financial Advisor for the performance inception date for each account.

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The **Global Investment Committee** is a group of seasoned investment professionals who meet regularly to discuss the global economy and markets. The committee determines the investment outlook that guides our advice to clients. They continually monitor developing economic and market conditions, review tactical outlooks and recommend model portfolio weightings, as well as produce a suite of strategy, analysis, commentary, portfolio positioning suggestions and other reports and broadcasts.

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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-



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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."

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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

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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.

### Virtual Currency Products (Cryptocurrencies)

***Buying, selling, and transacting in Bitcoin, Ethereum or other digital assets ("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:***

- Digital Assets have only been in existence for a short period of time and historical trading prices for Digital Assets have been highly volatile. The price of Digital Assets could decline rapidly, and **investors could lose their entire investment.**
- Certain Digital Asset 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, 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 to invest. Such Digital Asset 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 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 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 Digital Assets. Buyers, sellers and users of such Digital Assets should thoroughly familiarize themselves with such risks and considerations before transacting in such Digital Assets.
- The value of Digital Assets may be negatively impacted by future legal and regulatory developments, including but not limited to increased regulation of such Digital Assets. Any such developments may make such 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 are uncertain. Prospective investors should consult their own tax advisors concerning the tax consequences to them of the purchase, ownership and disposition of 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 Digital Asset 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 Digital Assets if the fund or product relies on an impacted exchange and may also materially decrease the price of Digital Assets, 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 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 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.
- Investors in funds or products investing or transacting in Digital Assets may not benefit to the same extent (or at all) from "airdrops" with respect to, or "forks" in, a Digital Asset's blockchain, compared to investors who hold Digital Assets directly instead of through a fund or product. Additionally, a "fork" in the Digital Asset blockchain could materially decrease the price of such Digital Asset.

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- Digital Assets are not legal tender, and are 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. 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, Digital Asset products' use is limited to businesses and individuals that are willing to accept them. If no one were to accept digital currencies, virtual currency products would very likely become worthless.
- Platforms that buy and sell 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.
- Unlike US banks and credit unions that provide certain guarantees of safety to depositors, there are no such safeguards provided to Digital Assets held in digital wallets by their providers or by regulators.
- Due to the anonymity Digital Assets offer, they have 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 Digital Asset products.
- Digital Assets may not have an established track record of credibility and trust. Further, any performance data relating to 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 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 virtual currency products versus the USD historically has been very volatile and the exchange rate could drastically decline. For example, the exchange rate of certain Digital Assets versus the USD has in the past dropped more than 50% in a single day. Other Digital Assets 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 is 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 any product or fund investing or trading in 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/dol](http://www.morganstanley.com/disclosures/dol). 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.

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*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.

**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**

**Custom Account Index:** The Custom Account Index is an investment benchmark based on your historical target allocations and/or manager selection that you may use to evaluate the performance of your account. The Custom Account index does take into consideration certain changes that may have occurred in your portfolio since the inception of your account, i.e., asset class and/or manager changes. However, in some circumstances, it may not be an appropriate benchmark for use with your specific account composition. For detailed report of the historical composition of this blend please contact your Financial Advisor.

**Custom Account Index:** 760XXX745 Custom Account Index. The current allocation began as of 09/30/2020, and is comprised of 5.00% MSCI EAFE Net, 10.80% Barclays Aggregate, 2.00% MSCI EM Net, 3.00% HFRX ED Merger Arbitrage, 2.00% ML Pref Stock Fixed Rate- POP1, 3.00% Russell Midcap Growth, 22.00% Russell 1000 Value, 2.00% Russell 2000 Gr, 16.20% BC Credit TR, 5.00% MSCI ACWI Ex USA NR USD, 5.00% HFRX EH Equity Market Neutral, 1.00% FTSE Treasury Bill 3 Month, 18.00% Russell 1000 Gr, 5.00% Russell 2500 VL.

**Balanced World 60/30/10:** The current allocation began as of 05/31/1994, and is comprised of 30.00% Barclays Aggregate, 60.00% MSCI AC World IMI Net, 10.00% FTSE Treasury Bill 3 Month. The historical constituents and allocations for this benchmark will be provided by your Financial Advisor to you upon request.

**50R3000Gr 50MLConv:** The current allocation is comprised of 50.00% Russell 3000 Gr, 50.00% ML All Conv Ex 144a - MLVXoN.

**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 auction and \$1,000 increments thereafter.

**ML All Conv Ex 144a - MLVXoN:** Sold into the U.S. market and publicly traded in the U.S. Convertible into U.S. dollar denominated common stock, ADR's or cash equivalent. Not a synthetic (defined as an exchangeable or equity-linked security issued by a broker-dealer with proceeds going directly to the broker-dealer). SEC registered.

**HFRX ED Merger Arbitrage:** Merger Arbitrage, also known as risk arbitrage, involves investing in securities of companies that are the subject of some form of extraordinary corporate transaction, including acquisition or merger proposals, exchange offers, cash tender offers and leveraged buy-outs. These transactions will generally involve the exchange of securities for cash, other securities or a combination of cash and other securities. Typically, a manager purchases the stock of a company being acquired or merging with another company, and sells short the stock of the acquiring company. A manager engaged in merger arbitrage transactions will derive profit (or loss) by realizing the price differential between the price of the securities purchased and the value ultimately realized when the deal is consummated. The success of this strategy usually is dependent upon the proposed merger, tender offer or exchange offer being consummated. When a tender or exchange offer or a proposal for a merger is publicly announced, the offer price or the value of the securities of the acquiring company to be received is typically greater than the current market price of the securities of the target company. Normally, the stock of an acquisition target appreciates while the acquiring company's stock decreases in value. If a manager determines that it is probable that the transaction will be consummated, it may purchase shares of the target company and in most instances, sell short the stock of the acquiring company. Managers may employ the use of equity options as a low-risk alternative to the outright purchase or sale of common stock. Many managers will hedge against market risk by purchasing S&P put options or put option spreads.

**HFRX EH Equity Market Neutral:** Equity Market Neutral strategies strive to generate consistent returns in both up and down markets by selecting positions with a total net exposure of zero. Trading managers will hold a large number of long equity positions and an equal, or close to equal, dollar amount of offsetting short positions for a total net exposure close to zero. A zero net exposure is referred to as "dollar neutrality" and is a common characteristic of all equity market neutral managers. By taking long and short positions in equal amounts, the equity market neutral manager seeks to neutralize the effect that a systematic change will have on values of the stock market as a whole. Some, but not all, equity market neutral managers will extend the concept of neutrality to risk factors or characteristics such as beta, industry, sector, investment style and market capitalization. In all equity market neutral portfolios, stocks expected to outperform the market are held long, and stocks expected to underperform the market are sold short. Returns are derived from the long/short spread, or the amount by which long positions outperform short positions.

**MSCI EAFE Net:** The MSCI EAFE Index -Europe, Australasia, Far East - is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**ML Pref Stock Fixed Rate- POP1:** The Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market. Qualifying securities must be rated investment grade (based on an average of Moodys, S&P and Fitch) and must have an investment grade rated country of risk (based on an average of Moodys,

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S&P and Fitch foreign currency long term sovereign debt ratings). In addition, qualifying securities must be issued as public securities or through a 144a filing, must be issued in \$25, \$50, or \$100 par/liquidation preference increments, must have a fixed coupon or dividend schedule and must have a minimum amount outstanding of \$100 million. Fixed-to-floating rate securities qualify for inclusion in the Index provided they are callable prior to the floating rate period and are at least one year from the start of the floating rate period. The Index includes preference shares (perpetual preferred securities), American Depository Shares/Receipts (ADS/R), domestic and Yankee trust preferred securities having a minimum remaining term of at least one year, both DRD-eligible and non-DRD eligible preferred stock and senior debt. Auction market securities, convertibles, floaters, purchase units, purchase contracts, corporate pay-in-kind securities, securities issued by closed-end funds and derivative instruments such as repackaged securities and credit default swaps are excluded from the Index.

**MSCI ACWI Ex USA NR USD:** The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: 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. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (as of June 2014). This index is excluding the United States. Performance is showing net withholding tax. Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**Russell 3000 Gr:** The Russell 3000 Growth Index is representative of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The stocks in this index are also members of either the Russell 1000 Growth Index or the Russell 2000 Growth Index.

**BC Credit TR:** The Barclays US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supernationals, and local authorities. The US Credit Index is the same as the former US Corporate Investment Grade Index which has been renamed as the US Credit Index. The name change is effective as of 6/1/00 for statistics and as of 7/1/00 for returns.

**Russell 2000 Gr:** The Russell 2000 Growth Index is representative of the U.S. market for smaller capitalization stocks containing those companies in the Russell 2000 Index with higher price-to-book ratios and higher forecasted growth.

**Russell 2500 VL:** The Russell 2500 Value Index is representative of the U.S. market for smaller to medium capitalization stocks containing those companies in the Russell 2500 Index with lower price-to-book ratios and lower forecasted growth.

**MSCI AC World IMI Net:** The MSCI AC World IMI NT tracks the total return performance of the Investable Markets in the MS All Country World Index. The index is made up of 22 developed and 23 emerging markets as of 1/1/2015. This subset is calculated on a net dividend basis.

**Russell 3000:** The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

**S&P LSTA US Lev Loan 100:** The S&P/LSTA US Leveraged Loan 100 Index is designed to reflect the largest facilities in the leveraged loan market. It mirrors the market-weighted performance of the largest institutional leveraged loans based upon market weightings, spreads, and interest payments. The index consists of 100 loan facilities drawn from a larger benchmark, the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index.

**BC Universal:** The BC U.S. Universal is a combination of indices. It includes the following indices: BC Aggregate; Corporate High Yield; Eurodollar (Ex-Aggregate); Emerging Markets (Ex-Aggregate/Eurodollar); 144A (Ex-Aggregate), and Commercial Mortgage Backed Securities (CMBS). Each asset class is subject to minimum outstanding size threshold. These thresholds usually increase with the expansion of average issue size. All securities must be dominated in U.S. dollars. All issues must be fixed rate, with the exception of certain emerging-market debt bearing a floating-rate coupon. All securities and certificates must have a remaining maturity of at least one year. There are no rating constraints. Municipal debt, private placements, and non-dollar-denominated issues are excluded.

**JPM EMBI Global:** The JPMorgan Emerging Markets Bond Index Global tracks the total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least \$500 million. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity.

**HFRI ED Merger Arbitrage:** Merger (risk) arbitrage, sometimes called risk arbitrage, involves investment in event-driven situations such as leveraged buy-outs, mergers and hostile takeovers. Normally, the stock of an acquisition target appreciates while the acquiring company's stock decreases in value. These strategies generate returns by purchasing stock of the company being acquired, and in some instances, selling short the stock of the acquiring company. Managers may employ the use of equity options as a low-risk alternative to the outright purchase or sale of common stock. Most merger arbitrage funds hedge against market risk by purchasing S&P put options or put option spreads. Returns for HFRI Indices are to be considered estimated returns for the previous stated quarter as HFRI may

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revise Index data from time to time, as necessary. Generally Final Index returns are made available by HFRI 4 months after a particular month end. Please contact your Financial Advisor for more information.

**HFRX Equity Hedge:** Equity Hedge, also known as long/short equity, combines core long holdings of equities with short sales of stock or stock index options. Equity hedge portfolios may be anywhere from net long to net short depending on market conditions. Equity hedge managers generally increase net long exposure in bull markets and decrease net long exposure or even are net short in a bear market. Generally, the short exposure is intended to generate an ongoing positive return in addition to acting as a hedge against a general stock market decline. Stock index put options are also often used as a hedge against market risk. Profits are made when long positions appreciate and stocks sold short depreciate. Conversely, losses are incurred when long positions depreciate and/or the value of stocks sold short appreciates. Equity hedge managers' source of return is similar to that of traditional stock pickers on the upside, but they use short selling and hedging to attempt to outperform the market on the downside.

**HFRX Event Driven:** Event Driven investment strategies or "corporate life cycle investing" involves investments in opportunities created by significant transactional events, such as spin-offs, mergers and acquisitions, industry consolidations, liquidations, reorganizations, bankruptcies, recapitalizations and share buybacks and other extraordinary corporate transactions. Event driven trading involves attempting to predict the outcome of a particular transaction as well as the optimal time at which to commit capital to it. The uncertainty about the outcome of these events creates investment opportunities for managers who can correctly anticipate their outcomes. As such, event driven trading embraces merger arbitrage, distressed securities, value-with-a-catalyst, and special situations investing. Some event driven trading managers will utilize a core strategy and others will opportunistically make investments across the different types of events. Dedicated merger arbitrage and distressed securities managers are not included in the event driven index. Instruments include long and short common and preferred stocks, as well as debt securities, warrants, stubs, and options. Trading managers may also utilize derivatives such as index put options or put option spreads, to leverage returns and to hedge out interest rate and/or market risk. The success or failure of this type of strategy usually depends on whether the trading manager accurately predicts the outcome and timing of the transactional event. Event driven trading managers do not rely on market direction for results; however, major market declines, which would cause transactions to be repriced or break, may have a negative impact on the strategy.

**BC Gov/Cr 5-10 Yr:** The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. This index contains those issues due to mature within 5-10 Yrs out of the U.S. Government/Credit index.

**BC Gov/Cr 1-3 Yr:** The Barclays 1-3 Year Government/Credit Bond Index contains bonds that are investment grade with maturities between one and three years.

**ML All US Convert Bond - VXAo:** Merrill Lynch All Convertibles: Sold into the U.S. market and publicly traded in the U.S. Convertible into U.S. dollar denominated common stock, ADR's or cash equivalent. Not a synthetic (defined as an exchangeable or equity-linked security issued by a broker-dealer with proceeds going directly to the broker-dealer).

**BC Credit Pr:** The Barclays US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supnationals, and local authorities.

**MSCI EM Net:** The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**S&P 500 Total Return:** The S&P 500 has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over \$5.58 trillion benchmarked, with index assets comprising approximately \$1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

**90-Day T-Bills:** 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 auction and \$1,000 increments thereafter.

**S&P NAM Natural Resources Sector:** The S&P North American Natural Resources Sector index includes companies classified under the Energy and Materials Sectors excluding Chemicals Industry from the Materials Sector, and Steel Sub-Industry from the Materials Sector. The S&P North American Natural Resources Sector Index name changed from Goldman Sachs March 31, 2008. Source: S&P

**Russell Midcap:** The Russell Midcap Index is representative of the U.S. market for medium capitalization stocks containing approximately 800 of the smallest companies in the Russell 1000 Index,

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representing approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell Midcap Growth:** The Russell Mid Cap Growth Index contains Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index.

**Russell 1000 Gr:** The Russell 1000 Growth Index is representative of the U.S. market for large capitalization stocks containing those companies in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth.

**Russell 1000 Value:** The Russell 1000 Value Index is representative of the U.S. market for large capitalization stocks containing those companies in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth.

**FTSE NAREIT All Equity REITS:** The FTSE NAREIT US Real Estate Index consists of equity REITs (Real Estate Investment Trusts), defined generally as REITs with 75% or greater of their gross invested book assets invested directly or indirectly in the equity ownership of real estate.

**Barclays Aggregate:** The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

## Recommended Portfolio Adjustments

| Asset Class          | Investment Policy | Current | Recommended |
|----------------------|-------------------|---------|-------------|
| Large Cap Growth     | 20%               | 18%     | 15%         |
| Large Cap Value      | 20%               | 22%     | 19%         |
| Small/Mid Cap Growth | 5%                | 5%      | 5%          |
| Small/Mid Cap Value  | 5%                | 5%      | 5%          |
| International        | 10%               | 12%     | 10%         |
| Fixed Income         | 35%               | 30%     | 34%         |
| Alternatives         | 5%                | 8%      | 12%         |

*Lower the portfolio exposure to equities by 8%*

*Add 4% position in convertible bonds*

*Add 4% position in Private Credit*

*Substitute Harding Loevner International in place of Invesco International*