Morgan Stanley

**Livingston County Retiree Health Care Plan**
**1st Quarter 2021**

**U.S. Economy**
The Bureau of Economic Analysis estimated that real Gross Domestic Product increased at an annualized rate of 4.3% in 4Q20, in comparison to a 33.4% increase in 3Q20. With Global GDP output having already fully recovered, US economy should be back to pre-COVID levels by 2Q21, with pre-COVID trend by 4Q21. Having expected a deceleration of growth in late Q4 into 1Q21, MS & Co. projects 1.2% year-on-year average growth for 1Q21, with a ramp-up to 12.4% in 2Q21. The seasonally adjusted unemployment rate for February 2021 was 6.2%, steadily decreasing each month after peaking in April at 14.7%. According to the most recent data from the Federal Reserve Bank of St. Louis, corporate profits decreased -3.3% quarter over quarter and decreased -2.4% year of year. Morgan Stanley & Co. economists forecast 1.8% inflation rate for 1Q21, and a 2.3% inflation rate for 4Q21. Consumer confidence increased in February. In September, the Institute for Supply Management's (ISM) Purchasing Managers Index (PMI), a manufacturing sector index, registered 64.7% in March, up 6.4% from February. Overall, this figure indicates expansion in the overall economy after a contraction in April, which had been the lowest since 2008. Generally speaking, a PMI over 50 indicates that the sector is expanding, a PMI below 50 indicates that the sector is shrinking.

**Fixed Income**
The bond market fell for the first time in the past three quarters. The Bloomberg Barclays US Aggregate Bond Index, a general measure of the bond market, fell -3.4%.The yield on the 10-year US Treasury notably increased, closing the quarter above 1.7%., up from the fourth quarter but still down from 1.92% at the end of 2019. The shortest end of the curve fell in 1Q20 as the Fed cut their Fed funds target rate, with the yield on the 3-month Treasury bills falling to 0.02% as of 1Q21, from 1.54% at the start of the 2020. The Bloomberg Barclays Capital High Yield Index, a measure of lower-rated corporate bonds, gained 0.85%. Mortgage-backed securities fell in the first quarter. The Bloomberg Barclays Capital Mortgage Backed Index fell -1.1%. The Bloomberg Barclays Capital Muni Index fell -0.35%.

**US Equity Markets**
The Dow Jones Industrial Average gained 8.3% in the first quarter of 2021, while the NASDAQ Composite Index gained 3.0%. The S&P 500 Index climbed 6.2% over the same time period. All 11 sectors of the S&P 500 gained in the fourth quarter with Energy the top performer, having gained 30.8%, and Consumer Staples the laggard, with a return of 1.2%. Energy, Financials and Industrials outperformed for the second consecutive quarter, returning 30.8%, 15.9%, and 11.4%, compared to 4Q20, returning 27.8%, 23.2%, and 15.7%. Laggards included Utilities, Info Tech, and Consumer Staples, coming in at 2.8%, 2.0%, and 1.2%, respectively. The Russell Midcap gained 8.1% on the quarter, with mid-cap value (13.1%) outperforming mid-cap growth (-0.6%). The Russell 2000, a small cap-index, gained 12.7% for the quarter, with small cap-value (21.2%) outperforming small-cap growth (4.9%).

**Global Equity Markets**
US equities outperformed International in the first quarter 2021. The MSCI EAFE index advanced 3.6%. In the first quarter, the MSCI Emerging Markets Index gained 2.3%. The MSCI Europe Index advanced 4.2% while MSCI Japan underperformed, gaining 1.5%. The MSCI BRIC Index fell -0.1% while the MSCI Asia Index rose 2.1%. The S&P 500 rallied 6.2% for the quarter.

**Livingston County Retiree Health Care Plan**
The Livingston County Retiree Health Care Portfolio was +3.78% for the 1st Quarter.

Since the portfolios inception date of 11/7/2003 the portfolio has a total net contribution/withdrawal of $6,329,937 a quarter ending value of $22,590,635 for an investment gain of $15,435,698 or an annualized return of +7.00%.

During the 1st quarter a distribution of $104,950.81 was taken for the Retiree Health Care Costs. At the end of the 1st quarter your asset allocation was 71.6% equities and 28.4% fixed income. You are currently 1.6% over our mandate in equites, this number is automatically adjusted with the quarterly distributions.

Please contact me if you any have questions or concerns regarding the Livingston County Retiree Healthcare Plan.

Sincerely,

*Ken*

Kenneth Mittelbrun, CIMA®
Executive Director
Senior Investment Management Consultant
US Government Entity Specialist
Financial Advisor

# Performance Review

Prepared on April 07, 2021 for:

LIVINGSTON COUNTY TREASURER RHCP

LIVINGSTON COUNTY TREASURER
RETIREE HEALTH CARE PLAN
attn jennifer nash
200 E GRAND RIVER
HOWELL MI 48843-2267

KENNETH MITTELBRUN
Financial Advisor
Executive Director
Tel: +1 248 740-7107
Kenneth.Mittelbrun@morganstanley.com

Your Branch:
101 W BIG BEAVER RD SUITE 1200
TROY, MI 48084

## TABLE OF CONTENTS



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

Morgan Stanley

## LIVINGSTON COUNTY TREASURER RHCP

Reporting Currency: USD

### MORGAN STANLEY WEALTH MANAGEMENT

| Account Name | Account Type/ Manager Name | Advisory/ Brokerage | Account Number | Date Opened | Date Closed | Performance (%) Inception - 03/31/21 |
|---|---|---|---|---|---|---|
| LIVINGSTON COUNTY TREAS rhcp | Ancora/Thelen SMID Core | Advisory | 089-XXX116 | 05/14/15 | - | - |
| LIVINGSTON COUNTY TREASURER RHCP | HGK Large Cap Value | Advisory | 089-XXX388 | 11/03/03 | - | 6.04 |
| LIVINGSTON COUNTY TREASURER RHCP | Federated Hermes MDT Mid C Grw | Advisory | 089-XXX389 | 11/03/03 | - | 8.39 |
| LIVINGSTON COUNTY TREASURER RHCP | Lazard Intl Equity Select ADR | Advisory | 089-XXX390 | 11/03/03 | - | 5.44 |
| LIVINGSTON COUNTY TREASURER RHCP | Western AA Intermediate Bond | Advisory | 089-XXX400 | 10/28/05 | - | 2.16 |
| LIVINGSTON COUNTY TREASURER RHCP | Renaissance Large Growth | Advisory | 089-XXX407 | 08/31/07 | - | 9.03 |
| LIVINGSTON COUNTY TREASURER RHCP | Pioneer Fundamental Growth | Advisory | 089-XXX408 | 08/31/07 | - | 8.81 |
| LIVINGSTON COUNTY TREASURER RHCP | TCW Relative Value | Advisory | 089-XXX409 | 08/31/07 | - | 6.32 |
| LIVINGSTON COUNTY TREASURER RHCP | Select UMA | Advisory | 089-XXX410 | 08/31/07 | - | - |
| LIVINGSTON COUNTY TREASURER RHCP | ClearBridge Multi Growth | Advisory | 089-XXX411 | 08/31/07 | - | 10.22 |
| LIVINGSTON COUNTY TREASURER RHCP | Harding Loevner Intl Eq ADR | Advisory | 089-XXX412 | 08/31/07 | - | 4.72 |
| LIVINGSTON COUNTY TREASURER RHCP | AAA | Brokerage | 310-XXX109 | 05/13/15 | 05/18/15 | - |

# INVESTMENT SUMMARY DOLLAR WEIGHTED RETURNS

Morgan Stanley

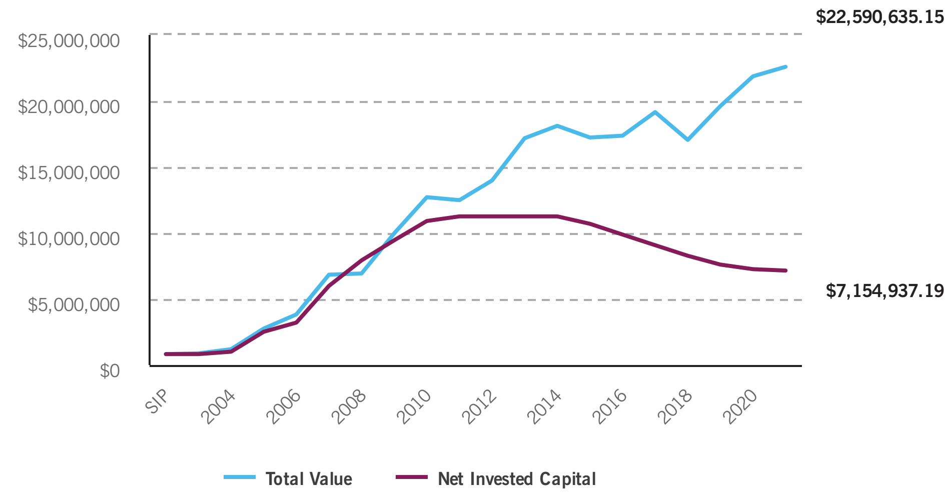
**LIVINGSTON COUNTY TREASURER RHCP**

As of March 31, 2021 | Reporting Currency: USD

## DOLLAR-WEIGHTED RETURN % (NET OF FEES)

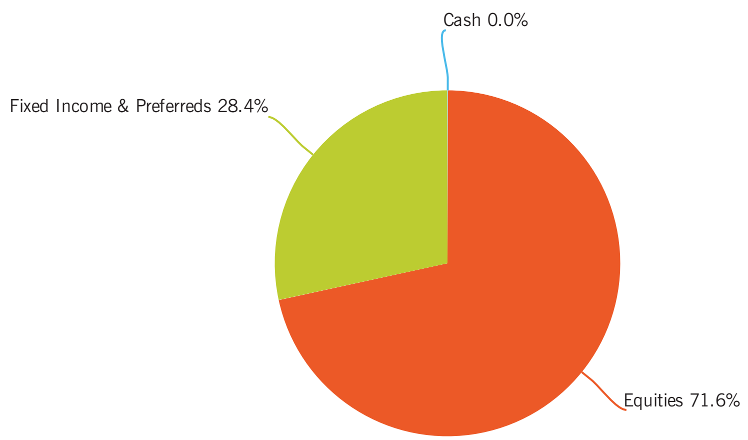
| | Year to Date ($) 12/31/20-03/31/21 | Previous Year ($) 12/31/19-12/31/20 | Performance Inception ($) 11/07/03-03/31/21 |
|---|---|---|---|
| **Beginning Total Value** | **21,871,344** | **19,616,222** | **825,000** |
| *Beginning Accrued Income* | 41,905 | 46,671 | 0 |
| Net Contributions/Withdrawals | -104,951 | -347,219 | 6,329,937 |
| Investment Earnings | 824,242 | 2,602,341 | 15,435,698 |
| **Ending Total Value** | **22,590,635** | **21,871,344** | **22,590,635** |
| *Ending Accrued Income* | 45,965 | 41,905 | 45,965 |
| **DOLLAR WEIGHTED RATE OF RETURN (%)** **(Annualized for periods over 12 months)** | | | |
| Return % (Net of Fees) | 3.78 | 13.33 | 7.00 |

## TOTAL VALUE VS. NET INVESTED CAPITAL




Does not include Performance Ineligible Assets.

## ASSET ALLOCATION



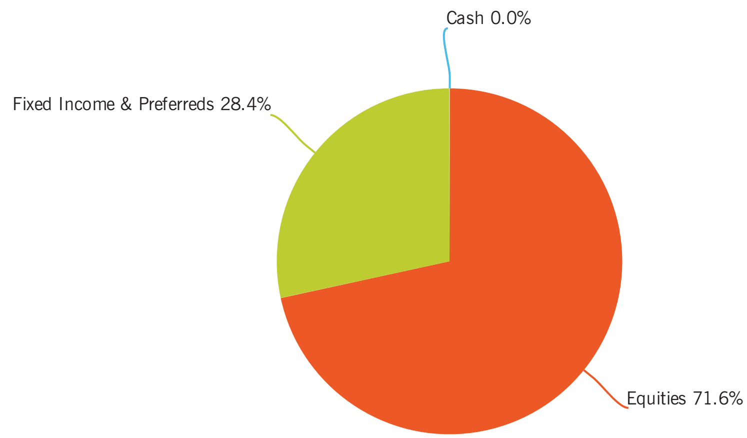

## INCOME AND DISTRIBUTION SUMMARY

| | Rolling 12 Months ($) 04/01/20-03/31/21 | Year To Date ($) 01/01/21-03/31/21 |
|---|---|---|
| **ASSET CLASS** | | |
| Cash | 41.61 | 9.86 |
| Equities | 240,637.82 | 52,317.74 |
| Fixed Income & Preferreds | 127,570.53 | 31,067.22 |
| Alternatives | 7,860.32 | 1,921.25 |
| **Total Asset Class** | **376,110.28** | **85,316.07** |
| **TAX CATEGORY** | | |
| Taxable Account(s) | | |
| Taxable | 376,110.28 | 85,316.07 |
| Tax-Exempt | - | - |
| Total | 376,110.28 | 85,316.07 |
| Tax Qualified Account(s) | - | - |
| **Total Tax Category** | **376,110.28** | **85,316.07** |

Taxable and tax-exempt income classifications are based on characteristics of the underlying securities and not the taxable status of the account.

As of March 31, 2021 | Reporting Currency: USD

## ASSET ALLOCATION - ASSET CLASS




## ASSET ALLOCATION

| | Total Value ($) 03/31/2021 | % of Portfolio 03/31/2021 |
|---|---|---|
| **Cash** | **11,157.47** | **0.0** |
| Global Cash | 11,157.47 | 0.0 |
| **Equities** | **16,165,608.60** | **71.6** |
| US Equities | 11,821,806.63 | 52.3 |
| International Equities | 3,343,155.71 | 14.8 |
| Emerging & Frontier Mkt | 1,000,646.27 | 4.4 |
| **Fixed Income & Preferreds** | **6,413,869.09** | **28.4** |
| US Fixed Income Taxable | 6,413,869.09 | 28.4 |
| **TOTAL PORTFOLIO** | **22,590,635.16** | **100.0** |

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

# EQUITIES ASSET ALLOCATION

Morgan Stanley

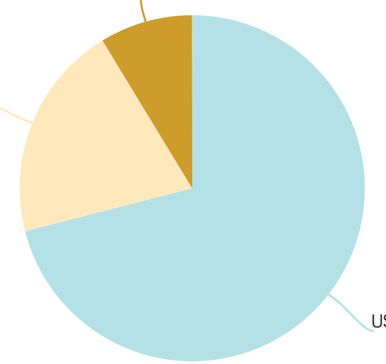
LIVINGSTON COUNTY TREASURER RHCP

As of March 31, 2021 | Reporting Currency: USD

## TOP EQUITY POSITIONS BASED ON TOTAL VALUE

| SECURITY DESCRIPTION | Total Value ($) 03/31/2021 | % of Equities 03/31/2021 |
|---|---|---|
| MIRAE EMERG MKTS GRT CONSMR I | 995,557.18 | 6.3 |
| COMCAST CORP (NEW) CLASS A | 237,975.78 | 1.5 |
| UNITEDHEALTH GP INC | 165,199.08 | 1.1 |
| MICROSOFT CORP | 158,437.44 | 1.0 |
| ALPHABET INC CL C | 142,735.47 | 0.9 |
| BROADCOM INC | 135,388.72 | 0.9 |
| JOHNSON CTLS INTL PLC | 133,246.62 | 0.8 |
| ACCENTURE PLC IRELAND CL A | 131,495.00 | 0.8 |
| JPMORGAN CHASE & CO | 121,936.23 | 0.8 |
| AMAZON COM INC | 120,669.12 | 0.8 |
| **Top Equity Positions** | **2,342,640.64** | **14.9** |
| **Other Equity Positions** | **13,354,194.10** | **85.1** |
| **Total Equities** | **15,696,834.74** | **100.0** |

## ASSET ALLOCATION - EQUITIES




## ASSET ALLOCATION - EQUITIES

| | % of Equities 03/31/2021 | Total Value ($) 03/31/2021 | % of Portfolio 03/31/2021 |
|---|---|---|---|
| US Equities | 71.0 | 11,145,888.96 | 49.3 |
| International Equities | 20.3 | 3,183,078.18 | 14.1 |
| Emerging & Frontier Mkt | 8.7 | 1,367,867.60 | 6.1 |
| **TOTAL EQUITIES** | **100.0** | **15,696,834.74** | **69.5** |

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

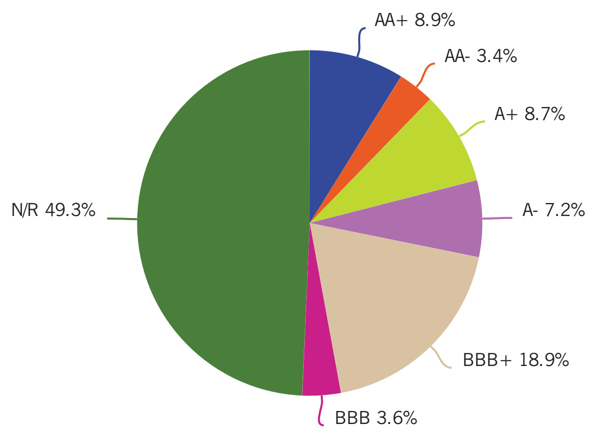
# FIXED INCOME & PREFERREDS QUALITY, MATURITY AND ASSET ALLOCATION



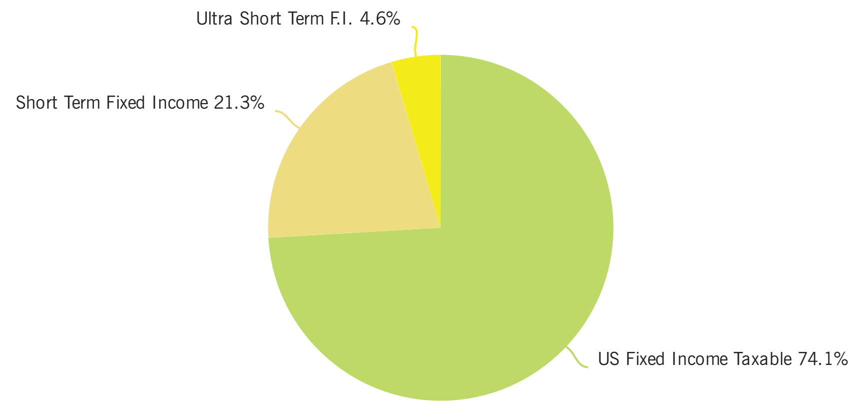
**LIVINGSTON COUNTY TREASURER RHCP**

As of March 31, 2021 | Reporting Currency: USD

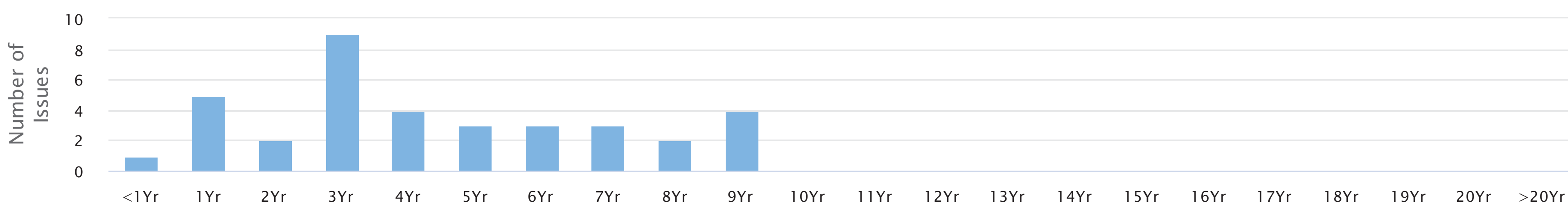
## FIXED INCOME AND PREFERREDS QUALITY ANALYSIS




## FIXED INCOME AND PREFERREDS ASSET ALLOCATION




## MATURITY SCHEDULE




| | Number of Issues | Total Value ($) 03/31/2021 | % of Fixed Income & Preferreds 03/31/2021 |
|---|---|---|---|
| Less than 1 yr | 1 | 292,915.38 | 4.60 |
| 1-5 yrs | 23 | 4,380,231.11 | 69.30 |
| 6-10 yrs | 12 | 1,651,751.05 | 26.10 |
| 11-15 yrs | 0 | 0.00 | 0.00 |
| 16-20 yrs | 0 | 0.00 | 0.00 |
| More than 20 yrs | 0 | 0.00 | 0.00 |
| Total Fixed Income & Preferreds | 36 | 6,324,897.55 | 100.00 |

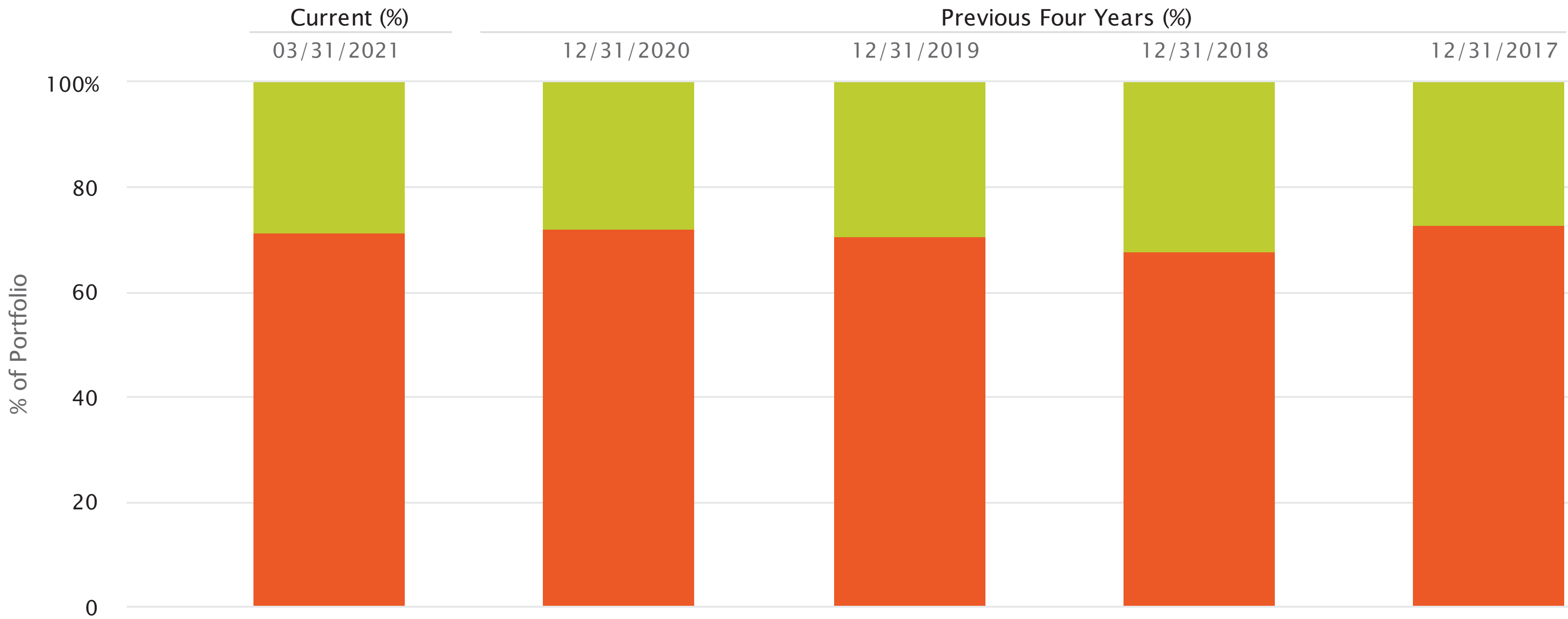
The Maturity Schedule only includes securities with a stated maturity date.

# ASSET ALLOCATION OVER TIME

Morgan Stanley

**LIVINGSTON COUNTY TREASURER RHCP** As of March 31, 2021 | Reporting Currency: USD

## HISTORICAL ALLOCATION




| % OF PORTFOLIO | Current 03/31/2021 (%) | 12/31/2020 (%) | 12/31/2019 (%) | 12/31/2018 (%) | 12/31/2017 (%) |
|---|---|---|---|---|---|
| Cash | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 |
| Equities | 71.6 | 72.1 | 70.9 | 67.9 | 72.9 |
| Fixed Income & Preferreds | 28.4 | 27.8 | 29.1 | 31.9 | 27.1 |
| **% of Portfolio** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Change in Total Values does not denote performance and may be due to contributions/withdrawals, fees, market fluctuations and other causes.
Total Value and % of Equities are based on US Dollar values.

# ASSET ALLOCATION OVER TIME



**LIVINGSTON COUNTY TREASURER RHCP** | As of March 31, 2021 | Reporting Currency: USD

## HISTORICAL ALLOCATION

| TOTAL VALUE | Current 03/31/2021 ($) | 12/31/2020 ($) | 12/31/2019 ($) | 12/31/2018 ($) | 12/31/2017 ($) |
|---|---|---|---|---|---|
| Cash | 11,157.47 | 8,157.42 | 5,094.19 | 20,261.09 | 1,632.73 |
| Equities | 16,165,608.60 | 15,778,684.38 | 13,902,434.60 | 11,584,560.13 | 13,958,500.54 |
| Fixed Income & Preferreds | 6,413,869.09 | 6,084,502.36 | 5,708,686.78 | 5,447,950.90 | 5,197,623.08 |
| **Total Value** | 22,590,635.16 | 21,871,344.16 | 19,616,215.57 | 17,052,772.11 | 19,157,756.35 |

Change in Total Values does not denote performance and may be due to contributions/withdrawals, fees, market fluctuations and other causes.
Total Value and % of Equities are based on US Dollar values.

# DOLLAR WEIGHTED PERFORMANCE DETAIL



**LIVINGSTON COUNTY TREASURER RHCP** As of March 31, 2021 | Reporting Currency: USD

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

| Account Name/ Benchmark | Account Number | Performance Inception Date | Total Value ($) 03/31/21 | % Of Portfolio 03/31/21 | Year to Date (%) 12/31/20 - 03/31/21 | Last 3 Years (%) 03/31/18 - 03/31/21 | Last 5 Years (%) 03/31/16 - 03/31/21 | Performance Inception Month End (%) to 03/31/21 | Performance Inception (%) to 03/31/21 |
|---|---|---|---|---|---|---|---|---|---|
| **ADVISORY** | | **11/07/03** | **22,590,635.15** | **100.00** | **3.78** | **9.03** | **9.58** | **6.99** | **7.00** |
| LIVINGSTON COUNTY TREASURER RHCP (Western AA Intermediate Bond) | 089-XXX400 | 11/01/05 | 6,413,869.09 | 28.39 | -2.06 | 3.84 | 2.29 | 1.91 | 1.91 |
| LIVINGSTON COUNTY TREASURER RHCP (TCW Relative Value) | 089-XXX409 | 08/31/07 | 2,134,190.01 | 9.45 | 15.08 | 8.78 | 11.03 | 8.88 | 8.87 |
| LIVINGSTON COUNTY TREASURER RHCP (HGK Large Cap Value) | 089-XXX388 | 11/07/03 | 1,810,079.51 | 8.01 | 16.36 | 9.87 | 12.59 | 7.58 | 7.61 |
| LIVINGSTON COUNTY TREASURER RHCP (Pioneer Fundamental Growth) | 089-XXX408 | 08/31/07 | 1,789,280.80 | 7.92 | 2.23 | 18.58 | 16.98 | 10.04 | 10.03 |
| LIVINGSTON COUNTY TREASURER RHCP (Federated Hermes MDT Mid C Grw) | 089-XXX389 | 11/07/03 | 1,741,862.70 | 7.71 | 0.45 | 16.52 | 18.11 | 9.94 | 9.97 |
| LIVINGSTON COUNTY TREAS rhcp (Ancora/Thelen SMID Core) | 089-XXX116 | 05/15/15 | 1,711,949.39 | 7.58 | 12.25 | 7.84 | - | - | - |
| LIVINGSTON COUNTY TREASURER RHCP (Harding Loevner Intl Eq ADR) | 089-XXX412 | 09/05/07 | 1,709,784.94 | 7.57 | 0.65 | 6.64 | 9.28 | 6.63 | 6.90 |
| LIVINGSTON COUNTY TREASURER RHCP (Lazard Intl Equity Select ADR) | 089-XXX390 | 11/07/03 | 1,633,370.76 | 7.23 | 1.17 | 3.44 | 5.37 | 5.68 | 5.69 |
| LIVINGSTON COUNTY TREASURER RHCP (ClearBridge Multi Growth) | 089-XXX411 | 08/31/07 | 1,425,333.63 | 6.31 | 9.12 | 14.73 | 14.96 | 13.15 | 13.15 |
| LIVINGSTON COUNTY TREASURER RHCP (Renaissance Large Growth) | 089-XXX407 | 08/31/07 | 1,209,110.59 | 5.35 | 5.30 | 17.27 | 16.97 | 10.97 | 10.97 |
| LIVINGSTON COUNTY TREASURER RHCP (Select UMA) | 089-XXX410 | 09/05/07 | 1,011,803.74 | 4.48 | -3.65 | 20.29 | - | - | - |

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

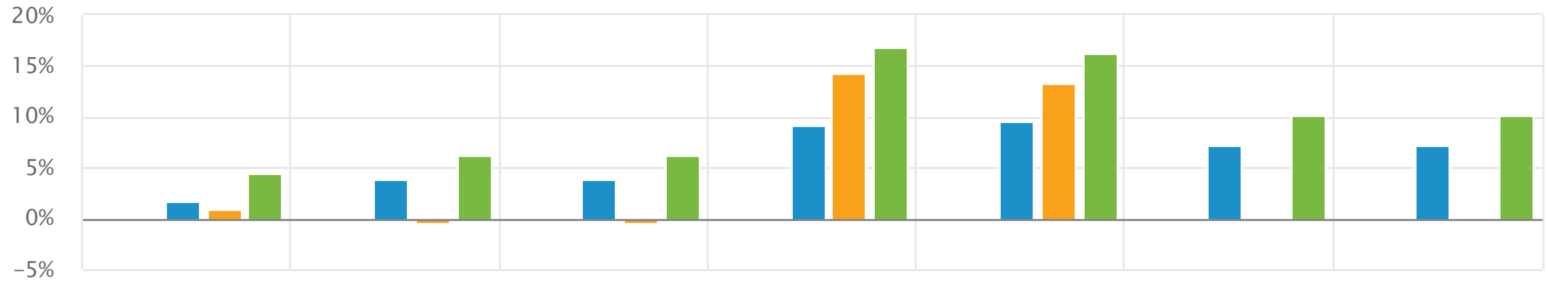
# TIME WEIGHTED PERFORMANCE SUMMARY



LIVINGSTON COUNTY TREASURER RHCP

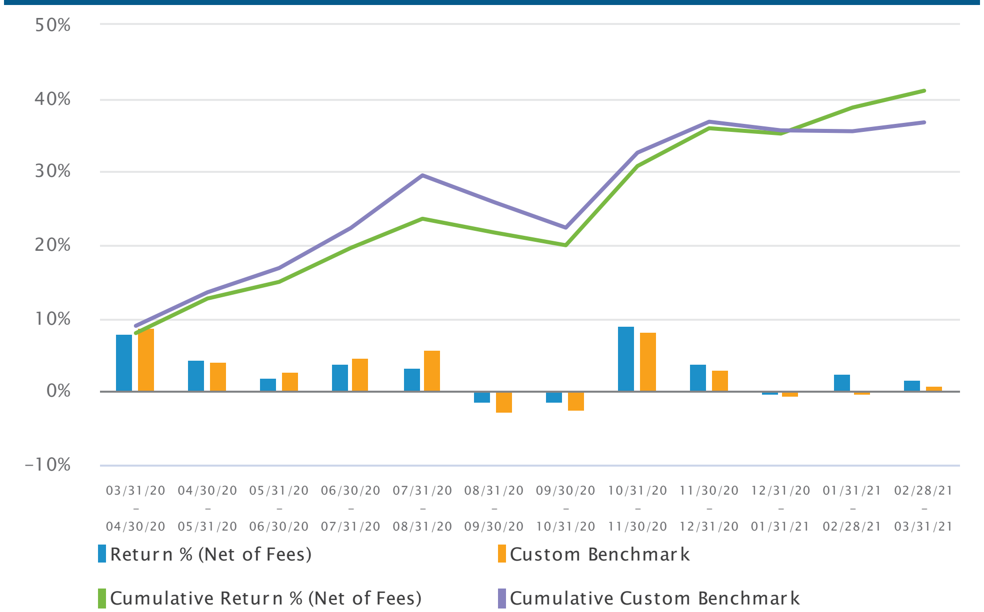
As of March 31, 2021 | Reporting Currency: USD

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

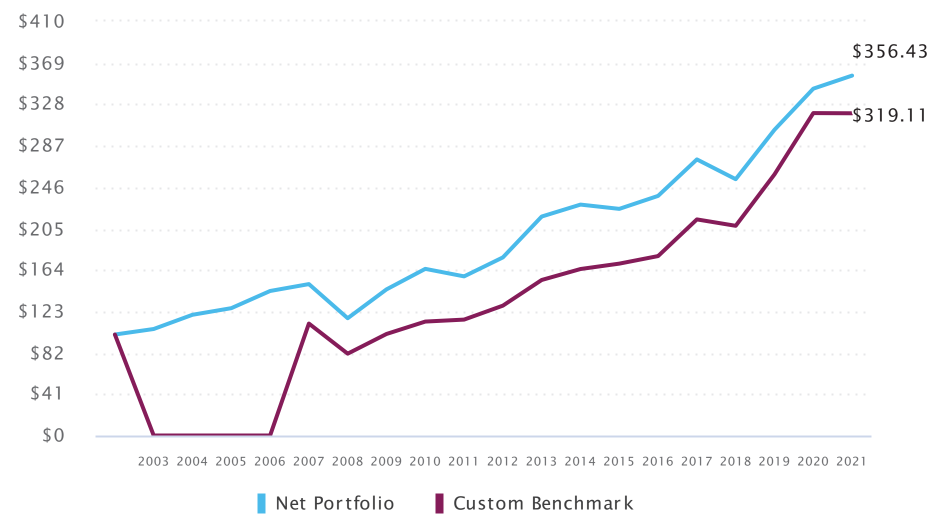



| | Month to Date 02/28/21 - 03/31/21 | Quarter to Date 12/31/20 - 03/31/21 | Year to Date 12/31/20 - 03/31/21 | Last 3 Years 03/31/18 - 03/31/21 | Last 5 Years 03/31/16 - 03/31/21 | Performance Inception Month End 11/30/03 - 03/31/21 | Performance Inception 11/07/03 - 03/31/21 |
|---|---|---|---|---|---|---|---|
| Return % (Net of Fees) | 1.65 | 3.77 | 3.77 | 9.22 | 9.66 | 7.20 | 7.24 |
| *Custom Benchmark (%)* | 0.89 | -0.06 | -0.06 | 14.22 | 13.21 | - | - |
| *S&P 500 Total Return (%)* | 4.38 | 6.17 | 6.17 | 16.80 | 16.29 | 10.15 | 10.12 |

## CUMULATIVE NET RETURNS (LAST 12 MONTHS)




## GROWTH OF $100 (PERFORMANCE INCEPTION MONTH END)




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

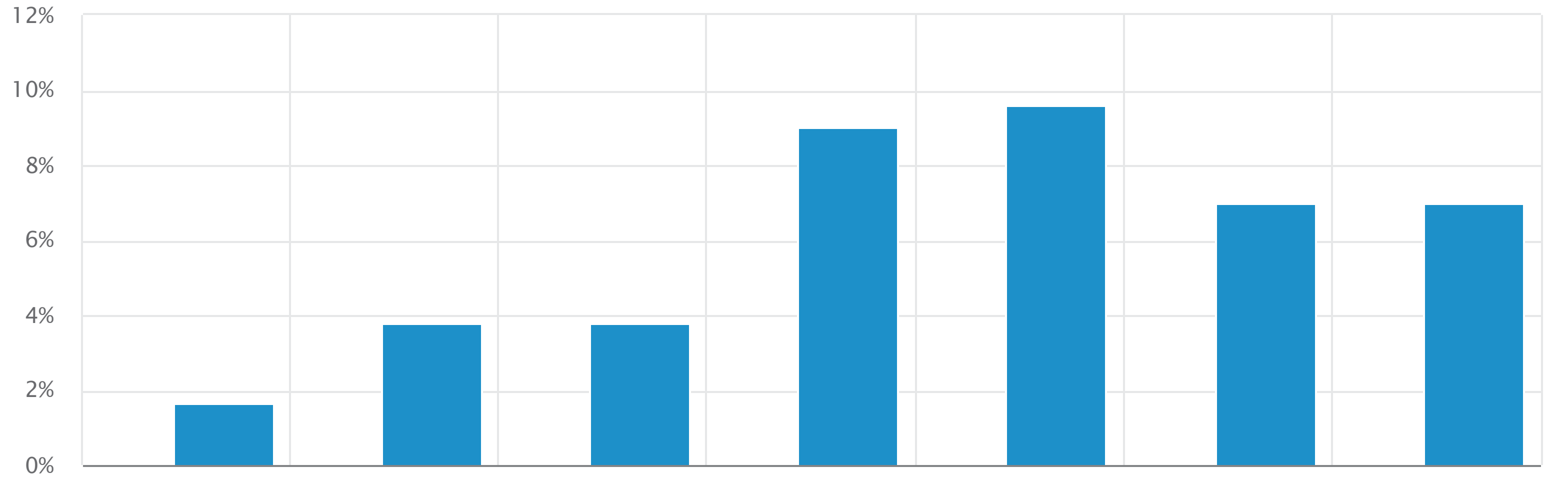
# DOLLAR WEIGHTED PERFORMANCE SUMMARY



LIVINGSTON COUNTY TREASURER RHCP

As of March 31, 2021 | Reporting Currency: USD

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




| | Month to Date 02/28/21 - 03/31/21 | Quarter to Date 12/31/20 - 03/31/21 | Year to Date 12/31/20 - 03/31/21 | Last 3 Years 03/31/18 - 03/31/21 | Last 5 Years 03/31/16 - 03/31/21 | Performance Inception Month End 11/30/03 - 03/31/21 | Performance Inception 11/07/03 - 03/31/21 |
|---|---|---|---|---|---|---|---|
| Beginning Total Value ($) | 22,223,150.46 | 21,871,344.13 | 21,871,344.13 | 19,019,395.43 | 16,985,744.49 | 835,193.09 | 825,000.00 |
| Net Contributions/Withdrawals ($) | 0.00 | -104,950.81 | -104,950.81 | -1,760,662.42 | -3,275,120.59 | 6,329,937.19 | 6,329,937.19 |
| Investment Earnings ($) | 367,484.69 | 824,241.83 | 824,241.83 | 5,331,902.14 | 8,880,011.25 | 15,425,504.87 | 15,435,697.96 |
| Ending Total Value ($) | 22,590,635.15 | 22,590,635.15 | 22,590,635.15 | 22,590,635.15 | 22,590,635.15 | 22,590,635.15 | 22,590,635.15 |
| Return % (Net of Fees) | 1.65 | 3.78 | 3.78 | 9.03 | 9.58 | 6.99 | 7.00 |

The investment returns shown on this page are dollar-weighted measurements which are affected by the timing and amount of your contributions and withdrawals.

## DISCLOSURES

**Explanatory Notes and Disclosures:** This document is designed to assist you and your Financial Advisor in understanding portfolio positions, composition and subsets thereof. It is designed solely for your individual use, is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Do not take action relying on this information without confirming its accuracy and completeness. Please read carefully all accompanying notes and disclosures provided in this Document.

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

**Indices:**Benchmark indices and blends included in this material are for informational purposes only, are provided solely as a comparison tool and may not reflect the underlying composition and/or investment objective(s) associated with the account(s). In some circumstances, the benchmark index may not be an appropriate benchmark for use with the specific composite portfolio. For instance, an index may not take into consideration certain changes that may have occurred in the portfolio since the inception of the account(s), (e.g., changes from a brokerage to an advisory account or from one advisory program to another, asset class changes, or index changes for individual managers). The volatility of the index used for comparison may be materially different from that of the performance shown. Indices are unmanaged and not available for direct investment. Index returns do not take into account fees or other charges. Such fees and charges would reduce performance. Please see the Benchmark Definitions section of this material for additional information on the indices used for comparison.

**Performance Inception Month End:**Performance Inception Month End refers to performance calculated from the end of the month in which the accounts became eligible for performance. Calculating performance from the Performance Inception Month End allows for a comparison to be made to appropriate benchmarks. Performance Inception Month End does not necessarily correspond to the account opening date.

**Projected 12 Month:**Projected 12 Month Income is based upon cash income from interest, cash dividends, and partnership distributions. It is a hypothetical projection calculated using current yields. The projected income referenced is based upon certain market projections effective as at today's date only and can change at any time. Such projected income is hypothetical, do not reflect actual investment results, and is not a guarantee of future results. The projected income is referenced for illustrative purposes only. Morgan Stanley does not represent or guarantee that the projected income referenced will or can be attained. The actual income may be lower or higher than the projections based upon a variety of factors and assumptions. The projected income shown may under or over compensate for the impact of actual market conditions and other factors. We make no representation or warranty as to the reasonableness of the assumptions made, or that all assumptions used to construct this projected income information have been stated or fully considered. To the extent that the assumptions made do not reflect actual conditions, the illustrative value of the hypothetical projected income will decrease. The projected income referenced may include income from Morgan Stanley & Co. and External Accounts, where data is available. Such information was obtained from third party sources which Morgan Stanley believes to be reliable. However, we make no representation or guarantee that the information is accurate or complete. You should not rely upon this information to make any investment decision. Please refer to the official account statements and performance reports you received from your custodian and/or financial institution for information about projected income in your External Accounts. The projected income referenced does not include income from assets in Manually Added External Accounts.

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## GENERAL DEFINITIONS

**Accrued Income:** Income earned but not yet received.

**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.

**Moody's Investor Service and Standard & Poor's Credit Ratings:** The credit ratings from Moody's Investors Service and Standard & Poor's may be shown for certain securities. All credit ratings represent the "opinions" of the provider and are not representations or guarantees of performance. Your Financial Advisor will be pleased to provide you with further information or assistance in interpreting these credit ratings.

**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 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.

**Not Rated:** Not Rated is assigned to an unrated issuer, obligation and/or program and can also include mutual funds and ETFs.

**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 Benchmark :** The current allocation is comprised of 20.00% MSCI EAFE, 50.00% Russell 1000 Gr, 30.00% BC US AGG GOVT & CRT (AA OR MORE).

**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.

**MSCI EAFE:** 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). Gross total return indices reinvest as much as possible of a company's dividend distributions. The reinvested amount is equal to the total dividend amount distributed to persons residing in the country of the dividend-paying company. Gross total return indices do not, however, include any tax credits.

**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.

# Wealth Management Perspectives

# Capital Markets Overview: 1Q 2021

## Introduction

Quarterly Update as of March 31, 2021 and Forecasts as of March 26, 2021

- To kick off 2021, the S&P 500 saw continued gains, the fourth consecutive quarter of strong returns following the one-year anniversary of the March 2020 lows. Equities rallied 6.2% on the quarter, following a quarter in which they gained 12.1%. Equities continued to rally as investors cheered the much-anticipated $1.9 trillion stimulus package and continued vaccine distribution, as well as robust economic data and easy monetary policy. US equities outperformed both international developed and emerging market equities in the first quarter. Morgan Stanley & Co. U.S. Equity Strategy has a 3,900 price target on the S&P 500 to December 2021.
- After the S&P 500 sectors finished the fourth quarter posting a strong performance, the sectors finished the first quarter with moderate returns. Energy, Financials, and Industrials outperformed for the second consecutive quarter, returning 30.8%, 15.9%, and 11.4%, compared to 4Q20, returning 27.8%, 23.2%, and 15.7%. Laggards included Utilities, Info Tech, and Consumer Staples, coming in at 2.8%, 2.0%, 1.2%, respectively. Other major US indices were also up for the quarter: The Dow Jones Industrial Average rose 8.3% and the NASDAQ Composite rose 3.0%.
- The MSCI EAFE Index (a benchmark for international developed markets) rose 3.6% while the MSCI Emerging Markets Index rose 2.3% for the quarter. US equities outperformed International developed and emerging market equities by 257 and 383 basis points, respectively, in 1Q.
- The US aggregate bond market fell in the first quarter, and the Bloomberg Barclays US Aggregate Bond Index, a general measure of the bond market, fell 3.37%.
- Morgan Stanley & Co. economists expect US GDP will be 12.4% in Q2 2021, and forecast positive GDP growth for 2021 as economic recovery continues, with an estimate of 8.1% GDP growth in Q4 2021.
- Commodities were up in the third quarter; the Bloomberg Commodity Index rose by 6.9% and Gold fell by -10.0%.

Source: FactSet, Bloomberg, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management GIC

# Capital Markets Overview: 1Q 2021

## The US Economy

Quarterly Update as of March 31, 2021 and Forecasts as of March 26, 2021

Awaiting finalized Q1 data, the Bureau of Economic Analysis estimated that real Gross Domestic Product increased at an annualized rate of 4.3% in 4Q20, in comparison to a 33.4% increase in 3Q20. With Global GDP output having already fully recovered, US economy should be back to pre-COVID levels by 2Q21, and pre-COVID trend by 4Q21. Having expected a deceleration of growth in late Q4 into 1Q21, MS & Co. projects 1.2% year-on-year average growth for 1Q21, with a ramp-up to 12.4% in 2Q21.

The seasonally adjusted unemployment rate for February 2021 was 6.2%, steadily decreasing each month after peaking in April at 14.7%. In February, total nonfarm payrolls were +379K. The improvements in the labor market reflect the continued resumption in economic activity to curtail effects of the pandemic. The number of long-term unemployed (those jobless for 27 weeks or more) was 4.1 million, changed little over the month but is up by 3.0 million over the year.

According to the most recent data from the Federal Reserve Bank of St. Louis from 4Q20, corporate profits decreased -3.3% quarter over quarter and decreased -2.4% year over year.

The Bureau of Labor Statistics has reported a +0.4% MoM price increase, and a 1.7% price increase for the year ending February 2021. Morgan Stanley & Co. economists forecast a 1.8% inflation rate for 1Q21, and a 2.3% inflation rate for 4Q21.

The Census Bureau reported that the number of new private-sector housing starts in February was at a seasonally adjusted annual rate of 1,421,000—down 9.3% from February of last year.

The Census Bureau also reported that seasonally adjusted retail and food services sales declined 3.0% from the previous month, but increased 6.3% above February 2020. Consumer confidence increased in February, with the Conference Board Consumer Confidence Index reading 90.4, after reading 88.9 in January. Despite the decline, the US National Economy Expectations Diffusion Index increased from 39.5 in January to 48.5 in February.

In September, the Institute for Supply Management's (ISM) Purchasing Managers Index (PMI), a manufacturing sector index, registered 64.7% in March, up 6.4% from February. Overall, this figure indicates expansion in the overall economy after a major contraction in April, which had been the lowest since 2008. Generally speaking, a PMI or NMI (ISM Non-Manufacturing Index) over 50 indicates that the sector is expanding, and a PMI below 50 indicates that the sector is shrinking.

The ISM's Non-Manufacturing Index (NMI), which represents growth in the services sector, was 55.3%f or February, down -5.8% from January.

Source: FactSet, Bloomberg, Morgan Stanley & Co. Research, Federal Reserve Bank of St. Louis, Morgan Stanley Wealth Management GIC

# Capital Markets Overview: 1Q 2021

## US Equity Markets

As of 1Q 2021

The Dow Jones Industrial Average gained 8.3% in the first quarter of 2021, while the NASDAQ Composite Index gained 3.0%. The S&P 500 Index climbed 6.2% over the same time period.

All 11 sectors of the S&P 500 gained in the fourth quarter with Energy the top performer, having gained 30.8%, and Consumer Staples the laggard, with a return of 1.2%. Energy, Financials, and Industrials outperformed for the second consecutive quarter, returning 30.8%, 15.9%, and 11.4%, compared to 4Q20, returning 27.8%, 23.2%, and 15.7%. Laggards included Utilities, Info Tech, and Consumer Staples, coming in at 2.8%, 2.0%, 1.2%, respectively.

The Russell Midcap gained 8.1% on the quarter, with mid-cap value (13.1%) outperforming mid-cap growth (-0.6%).

The Russell 2000, a small-cap index, gained 12.7% for the quarter, with small-cap value (21.2%) outperforming small-cap growth (4.9%).

**Key US Stock Market Index Returns (%) for the Period Ending 3/31/2021**

| INDEX IN USD | Quarter | 12 Months | 5-Years (Annualized) | 7-Years (Annualized |
|---|---|---|---|---|
| S&P 500 | 6.17% | 56.35% | 16.28% | 13.58% |
| Dow Jones | 8.29% | 53.78% | 15.98% | 13.10% |
| Russell 2000 | 12.70% | 94.85% | 16.34% | 11.04% |
| Russell Midcap | 8.14% | 73.64% | 14.67% | 11.64% |
| Russell 1000 | 5.91% | 60.59% | 16.65% | 13.63% |

Source: FactSet, Bloomberg, Morgan Stanley Wealth Management GIC

# Capital Markets Overview: 1Q 2021

## Global Equity Markets

As of 1Q 2021

US equities outperformed International in the first quarter of 2021 .The MSCI EAFE Index (a benchmark for international developed markets) advanced 3.6% for US-currency investors.

In the first quarter, the MSCI Emerging Markets Index gained 2.3% for US-currency investors. The MSCI Europe Index advanced 4.2% for US-currency investors, while the MSCI Japan underperformed, gaining 1.5%.

The S&P 500 Index rallied 6.2% for the quarter.

Emerging economy equity market indices saw muted returns in the first quarter. The MSCI BRIC (Brazil, Russia, India and China) Index fell -0.1% in US dollar terms, while the MSCI EM Asia Index rose 2.1%.

**Key Global Stock Market Index Returns (%) for the Period Ending 3/31/2021**

| INDEX IN USD | Quarter | 12 Months | 5-Years (Annualized) | 7-Years (Annualized) |
|---|---|---|---|---|
| MSCI EAFE | 3.60% | 45.15% | 9.37% | 5.29% |
| MSCI EAFE Growth | -0.49% | 43.00% | 11.25% | 7.61% |
| MSCI EAFE Value | 7.60% | 46.48% | 7.20% | 2.77% |
| MSCI Europe | 4.21% | 45.68% | 8.83% | 4.30% |
| MSCI Japan | 1.47% | 39.67% | 10.83% | 8.32% |
| S&P 500 | 6.17% | 56.35% | 16.28% | 13.58% |
| MSCI Emerging Markets | 2.34% | 58.92% | 12.47% | 6.96% |

Source: FactSet, Bloomberg, Morgan Stanley Wealth Management GIC

# Capital Markets Overview: 1Q 2021

## The US Bond Market

As of 1Q 2021

The bond market fell for the first time in the past three quarters. The Bloomberg Barclays US Aggregate Bond Index, a general measure of the bond market, fell -3.4%.

The yield on the 10-year US Treasury note notably increased, closing the quarter above 1.7%, up from the fourth quarter but still down from 1.92% at the end of 2019. The shortest end of the curve fell in 1Q20 as the Fed cut its Fed funds target rate, with the yield on 3-month Treasury bills falling to 0.02% as of 1Q21, from 1.54% at the start of the 2020.

Riskier parts of the bond market, such as US high yield debt, gained the most in the fourth quarter, buoyed by the market's risk-on sentiment. The Bloomberg Barclays High Yield Index, a measure of lower-rated corporate bonds, gained 0.85%.

Mortgage-backed securities fell in the first quarter. The Bloomberg Barclays Mortgage-Backed Securities Index fell -1.1%. Municipal bonds fell slightly less; the Bloomberg Barclays Municipal Index fell -0.35%.

**Key US Bond Market Index Returns (%) for the Period Ending 3/31/2021**

| INDEX IN USD | Quarter | 12 Months | 5-Years (Annualized) | 7-Years (Annualized) |
|---|---|---|---|---|
| Bloomberg Barclays US Aggregate | -3.37% | 0.71% | 3.15% | 3.31% |
| Bloomberg Barclays High Yield | 0.85% | 23.72% | 8.11% | 5.42% |
| Bloomberg Barclays Government/Credit | -4.35% | 0.70% | 3.41% | 3.48% |
| Bloomberg Barclays Government | -4.25% | -4.43% | 2.27% | 2.69% |
| Bloomberg Barclays Intermediate Govt/Credit | -1.89% | 2.01% | 2.80% | 2.78% |
| Bloomberg Barclays Long Govt/Credit | -10.41% | -2.05% | 5.59% | 6.12% |
| Bloomberg Barclays Mortgage Backed Securities | -1.10% | -0.09% | 2.45% | 2.86% |
| Bloomberg Barclays Muni | -0.35% | 5.51% | 3.52% | 4.00% |

Source: FactSet, Bloomberg, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management GIC

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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.

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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.

**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.

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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.

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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-defnitions**

**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. 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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