



Morgan Stanley

Tax-loss Harvesting Reimagined

The Smarter Way To Capture Losses

Tax-loss harvesting is a strategy to help reduce your federal income tax liability . When an investment temporarily declines in value, selling it may allow you to potentially realize a capital loss that may offset capital gains elsewhere in your portfolio—or even reduce the amount of income taxes owed.

What This Means for Portfolio Management In Your Account?

After selling a security, IRS wash-sale rules prevent you from buying it back right away. During that period, investors risk being out of the market or invested in an asset that does not always behave like what they sold.

Why Morgan Stanley Is Reimagining Tax-loss Harvesting For Clients:

Replacements across the industry typically have been broad-market ETFs. While simple, this approach can result in unexpected consequences. Such as:

- **Mismatches in portfolio exposure** compared to the original holdings
- **Unwanted performance drift** if the replacement behaves differently
- **Hidden concentration** risks or overexposure to certain market factors
- **Limited** replacement options in a customized client account

Investors may save on federal income taxes *but take on investment risk they did not intend*

Why Take A Broad Approach When You Can Be Personalized?

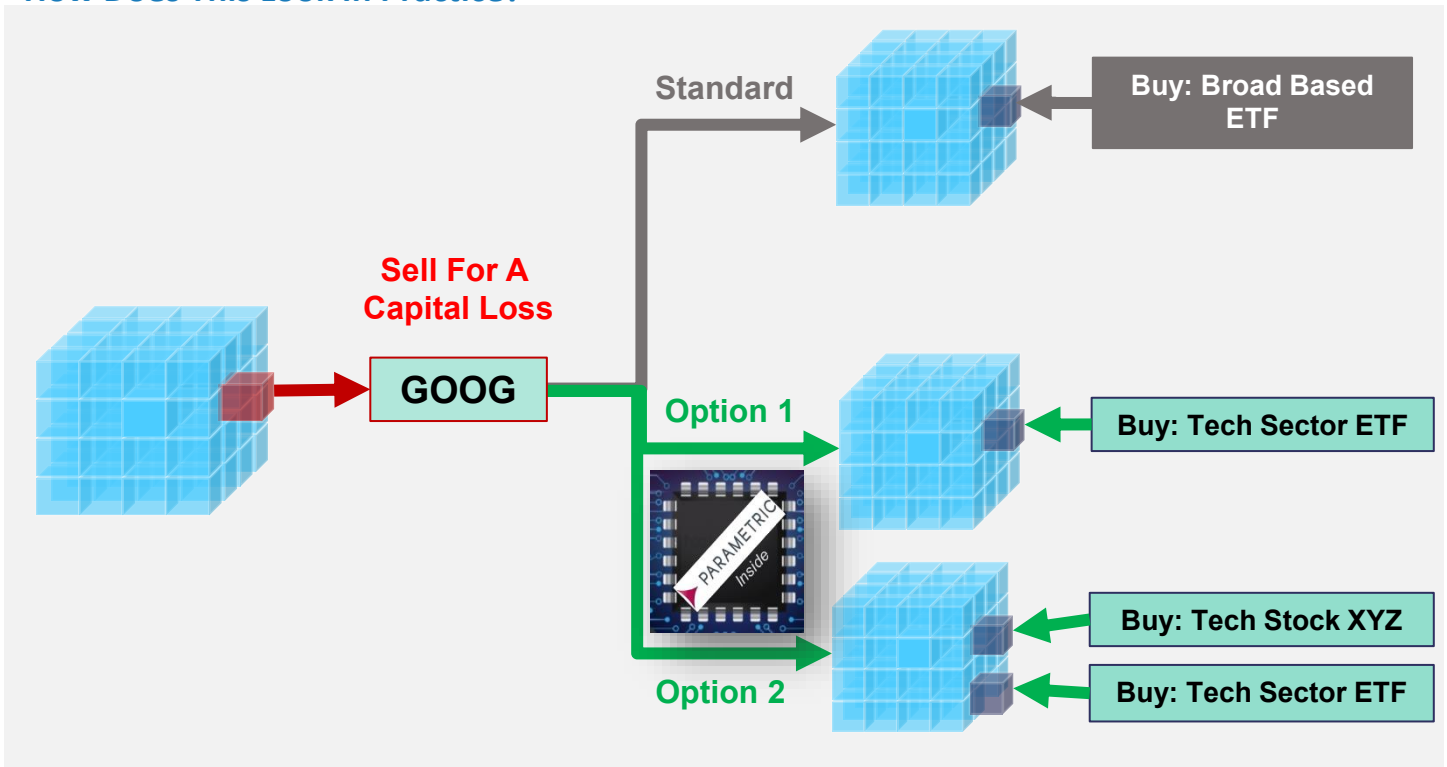
Our reimagined replacement approach uses a factor-based, quantitative algorithm designed to keep your portfolio closely aligned with your original investment strategy after capturing capital losses. The algorithm carefully selects replacement investments based on how closely they match the underlying drivers of risk and return of the security that was sold.

Let's explore how this powerful engine works for you within your account.

The New Tax Management Algorithm in Action

Our process uses a factor-driven framework to identify replacement securities that are expected to behave similarly to the original holding over the security replacement period. Instead of focusing only on minimizing tracking error, we consider a multitude risk factors - such as market sensitivity, style characteristics, and sector influences - so the portfolio continues to reflect its intended design. Clients get the choice to select ETF or ETF + Individual Security Replacement in their account outlined below.

How Does This Look In Practice?



How Do We Replace Securities Without Compromising A Client's Long-Term Objective?

Markets are always changing, volatility and risks can rise during periods of stress, and individual securities can experience company-specific events. To manage these realities, we apply relevant guardrails to the replacement process. Tools like Morgan Stanley's Portfolio Risk Platform bring predictive risk modelling capabilities to the table, allowing us to limit unintended concentrations, controls on factor mismatches, and preferences for sector or industry alignment where appropriate. The algorithm takes Morgan Stanley's risk management capabilities and incorporates Parametric's factor-driven approach to give clients a personalized replacement for their unique portfolio.

What This Means For You?

When we realize a capital loss, we don't invest your portfolio in a broad-based placeholder with limited alignment —we use a risk-model-driven engine to personalize a replacement that's right for your portfolio. With built-in safeguards and customizable replacement options (ETF or ETF + Individual Security Replacement), you can achieve the federal income tax savings you seek - without sacrificing your portfolio alignment.

Tax Management Services at Morgan Stanley enables you to personalize your tax-loss harvesting experience within your portfolio, based on your specific needs and financial goals. As a leader in the space, Morgan Stanley allows every client to have their own customized proactive approach to managing their tax liability. On both a scheduled and opportunistic basis the client can have tax management services performed on their behalf at NO additional cost. During day-to-day trading you can also have additional preferences that seek to limit realized capital gains during the year.

1.35%

Average Annual Tax Savings Since 2014¹

+\$270B

Assets Under Management¹

~350K

Accounts Managed Daily¹

+95%

New Eligible Accounts Enrolling¹



Set Gain Limits



Set Your Frequency



Take Advantage of Market Movement



Minimum Tax-Loss Thresholds



Defer Short Term Sales



Account Tax-Loss Targeting

Source:

1) MS Portfolio Management and Trading Desk (2014-2026)

Disclosures:

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There is no guarantee that tax-loss harvesting will achieve any particular tax result. Clients may elect Tax Management Services for the account by notifying their Financial Advisor and indicate what Maximum Tax or Realized Capital Gain Instruction is desired for the account, if any. The Tax Management Services Terms and Conditions attached to the Morgan Stanley Smith Barney LLC Select UMA ADV brochure as Exhibit A will govern Tax Management Services in the account. Review the Morgan Stanley Smith Barney LLC Select UMA ADV brochure carefully with your tax advisor. Tax Management Services are not available for all accounts or clients and may adversely impact account performance. Tax Management Services do not constitute tax advice or a complete tax-sensitive investment management program. There is no guarantee that Tax Management Services will produce the desired tax results.

The Portfolio Analysis report ("Report") is generated by Morgan Stanley Smith Barney LLC's ("Morgan Stanley") Portfolio Risk Platform. The assumptions used in the Report incorporate portfolio risk and scenario analysis employed by BlackRock Solutions ("BRS"), a financial technology and risk analytics provider that is independent of Morgan Stanley. BRS' role is limited to providing risk analytics to Morgan Stanley, and BRS is not acting as a broker-dealer or investment advisor, nor does it provide investment advice with respect to the Report. Morgan Stanley has validated and adopted the analytical conclusions of these risk models.

Parametric is a part of Morgan Stanley Investment Management, an affiliate of Morgan Stanley Smith Barney LLC.

(2) "markups," "markdowns," and "dealer

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