Graystone Consulting
from Morgan Stanley

Structuring Impactful Philanthropy

A Collaborative and Sequential Decision-Making Process for Donors and Non-Profits

Sarah D. McDaniel, CFA, Managing Director
Head of UHNW Content & Analytics

Graystone Consulting
from Morgan Stanley

Table of Contents

Section 1	Executive Summary
Section 2	Budgeting (Un/restricted and Non/contractual Donations)
Section 3	Investment Policy Statement
Part 1	Asset Allocation
Part 2	Spending Policy
Part 3	Investment Pools
Section 4	Strategies for Non-Profits
Part 1	Non-Profit with Donor Advised Fund (DAF)
Part 2	Non-Profit with Program Related Investment (PRI)
Part 3	Non-Profit with Split Interest Trusts (CRT/CLT)
Section 5	Conclusion: A New Paradigm
Section 6	Appendix

Executive Summary

CHALLENGE: Emphasis on Measurable Philanthropic Impact

The importance of non-profit organizations is arguably immeasurable, although the effectiveness of individual non-profits is increasingly being evaluated as efficiency and impact metrics have and continue to be introduced to the industry. Generally, numerous techniques can and have been applied to specific areas of the organizations, yet there is the potential to benefit from a more holistic and systematic approach to applying and implementing shared best practices.

SOLUTION: Philanthropic Integration Driving Consistent Cash Flows and Impact

This presentation intends to provide a prudent sequence for non-profit decision-making and to introduce techniques and best practices as well as quantify the potential result of adopting them. This holistic approach attempts to achieve a substantial potential impact and requires not only an understanding of the discrete strategies but also the commitment of the organization to think holistically and appreciate the interdependency of its functional and specialized departments in harnessing the compounding effects of integration.

PREMISE: The hypothesis being, the more consistent and transparent the cash flows from non-profits to grantees, the greater potential for increased philanthropic impact. For grantees to execute their strategies, they need reliable funding so they can set up and maintain projects that require their specialized skills. If grantees are uncertain whether they will receive the necessary funds, they likely are not able to execute at their fullest potential and may even drift from their primary skillsets to concentrate more on securing necessary funds. To keep the grantees focused on their missions, their non-profit benefactors may shoulder the burden of facilitating more consistent cash flows.

DILEMMA: Non-profits face a dilemma of balancing their longer-term goals while at the same time generating near term cash outflows to target grantees. While the two intentions are not mutually exclusive, they may position the various departments in the non-profit in seemingly conflicting points of view depending on the market cycle. In good market environments, there may be excess funds for the non-profit to distribute to grantees which they may or may not have identified. In bad market environments, there may not be enough funds for the non-profit to distribute to grantees who may have to discontinue projects.

APPROACH: The following sections discuss techniques and strategies for non-profits to mitigate the variability in cash distributions to grantees and alleviate potential cross-functional friction. There are techniques and strategies that may be used by many of the departments of the non-profit which individually are helpful but collectively and collaboratively are self-reinforcing.

Conventional Non-Profit Organization

Siloed and Fragmented Approach

The following generally describes how non-profits organize themselves by roles and associated responsibilities. Oftentimes, the roles are managed discretely and decisions are made independently. Better alignment between the Strategic Management and Investment Management could reduce inefficiencies and the potential for mission drift.

Roles and Responsibilities:	Decisions:
1. **Board and Executive Director** (Strategic Management) • Identification of issue and creation of mission • Advocating for the cause and fundraising • Formulation of governing principles and adherence to them	1. Going Concern or Sunset Organization • Prioritization of initiatives • Funding needed • Target time period
2. **Program Officer** (Strategic Management) • Analysis of the issue ecosystem and constituents • Identification, evaluation, selection and monitoring of grant recipients	2. Fixed Dollar and/or Market Driven Grant Strategy • Primary and/or ancillary sponsorship • Specified and/or at will funding
3. **Development Officer** (Strategic Management) • Raise funds for ongoing operations and grant making	3. Non/Contractual and/or Un/restricted Donations • Number and commitment of donors • Degree of specificity of donations
4. **Chief Financial Officer** (Investment Management) • Fund daily operations • Determine cash in/outflows and create annual budgets	4. Designation of Investment Pools • Generate cash flows for operations and grants • Anticipate net cash flow deficits and surpluses
5. **Investment Committee and Chief Investment Officer** (Investment Management) • Fiduciary responsibility for the investment management of the assets	5. Investment Policy Statement • Establish spending policy • Determine risk profile (asset allocation)

Decision Makers
- CFO
- Board of Directors
- Program Officer
- Development Officer
- Investment Committee

Future Non-Profit Organization

Holistic and Systematic Approach

Increasing philanthropic impact requires the non-profit to generate consistent cash flows for grantees. To do this necessitates the recognition of the interdependence of strategic and investment management decisions.

STRATEGIC MANAGEMENT

INVESTMENT MANAGEMENT

GOVERNANCE

Strategic Management

Board and Executive Director
- Identification of issue and creation of mission
- Advocating for the issue and fundraising
- Formulation of governing principles and adherence to them

Program Officer
- Analysis of the issue ecosystem and constituents

Governance

Integrate responsibilities and decisions among all key stakeholders to eliminate compartmentalization and work towards a unified goal

Investment Management

Board and Executive Director
- Define roles and responsibilities among internal and external constituents
- Determine sunset or going concern

Investment Committee and CIO
- Fiduciary responsibility for the investment management of the assets

BUDGETING

Strategic Management

Board and Executive Director
- Chronological dependency of initiatives and size and timing of grants

Program Officer
- Identify, evaluate, select and monitor grant recipients

Development Officer
- Raise funds for ongoing operations and grant making

Budgeting

Cash flows determine allocation of resources, rather than the investments driving decisions
- Non/contractual donations
- Un/restricted donations
- Lack of coordination within the same charitable ecosystem

Investment Management

Program Officer
- Primary and/or ancillary sponsorship
- At will or specified funding

Development Officer
- Number and commitment of donors
- Degree of specificity of donations

Chief Financial Officer
- Generate cash flows for operations and grants
- Anticipate net cash flow deficits and surpluses

INVESTMENT POLICY STATEMENT

Strategic Management

Board and Executive Director
- Funding needed
- Time period targeted

Investment Policy Statement

Memorialize investment management to align with Mission Statement
- Asset allocation
- Spending policy
- Investment pools

Investment Management

Investment Committee and CIO
- Evaluate market conditions
- Determine risk profile

IMPACT

Strategic Management

All Decision Makers
- Evaluate grantees' activities
- Monitor successes and failures in order to allocate resources more effectively

Impact

STRATEGIES

Investment Management

All Decision Makers
- Evaluate investment performance and risk
- Evaluate impact of spending needs on the portfolio

Decision Makers
- CFO
- Board of Directors
- Program Officer
- Development Officer
- Investment Committee

Structuring Impactful Philanthropy – Resources

STRATEGIC MANAGEMENT

INVESTMENT MANAGEMENT

GOVERNANCE

Integrate responsibilities and decisions among all key stakeholders to eliminate compartmentalization and work towards a unified goal

Strategic Management

Board and Executive Director
- Paper: Mission Align 360°
- Service: Creating a Philanthropic Mission Statement
- Service: Nonprofit Board + Professional Placement
- Service: Exemplary Board Leadership Program
- Service: Board Governance and Best Practices

Program Officer
- Service: Landscape Analysis

Investment Management

Board and Executive Director
- Service: Foundation Management Services[1]

Investment Committee and CIO
- Service: Global Investment Committee
- Publication: On the Markets
- Publication: Topics in Portfolio Construction

BUDGETING

Cash flows determine allocation of resources, rather than the investments driving decisions
- Non/contractual donations
- Un/restricted donations
- Lack of coordination within the same charitable ecosystem

Strategic Management

Board and Executive Director
- Event: Social Impact Exchange
- Publication: Perspectives in Philanthropy

Program Officer
- Service: Grantee Review
- Service: Grant Structure

Development Officer
- Service: Exemplary Board Leadership: Fundraising
- Paper: Primer on Planned Giving

Investment Management

Development Officer
- Presentation: Philanthropic Toolkit
- Presentation: Income and Estate Planning Toolkit

Chief Financial Officer
- Service: Wealth Strategies Analysis

INVESTMENT POLICY STATEMENT

Memorialize investment management to align with Mission Statement
- Asset allocation
- Spending policy
- Investment pools

Strategic Management

Investment Committee and CIO
- Presentation: Foundation & Endowment Management
- Presentation: The Importance of an IPS[2]
- Paper: Portfolio Construction is a Budgeting Process
- Paper: The Art of Investing in Private Investments

Investment Management

Investment Committee and CIO
- Service: Creating Investment Policy Statement
- Service: Global Investment Manager Analysis
- Service: Manager Selection and Portfolio Construction
- Product: Outsourced Chief Investment Officer
- Product: MS GIFT (DAF)[2]

IMPACT

STRATEGIES
- Presentation: Structuring Impactful Philanthropy

Strategic Management

Chief Financial Officer
- Paper: Pairing DAFs[2] and Foundations
- Paper: Taxable Foundations
- Presentation: Program Related Investments
- Paper: Pairing CLTs/CRTs[2]

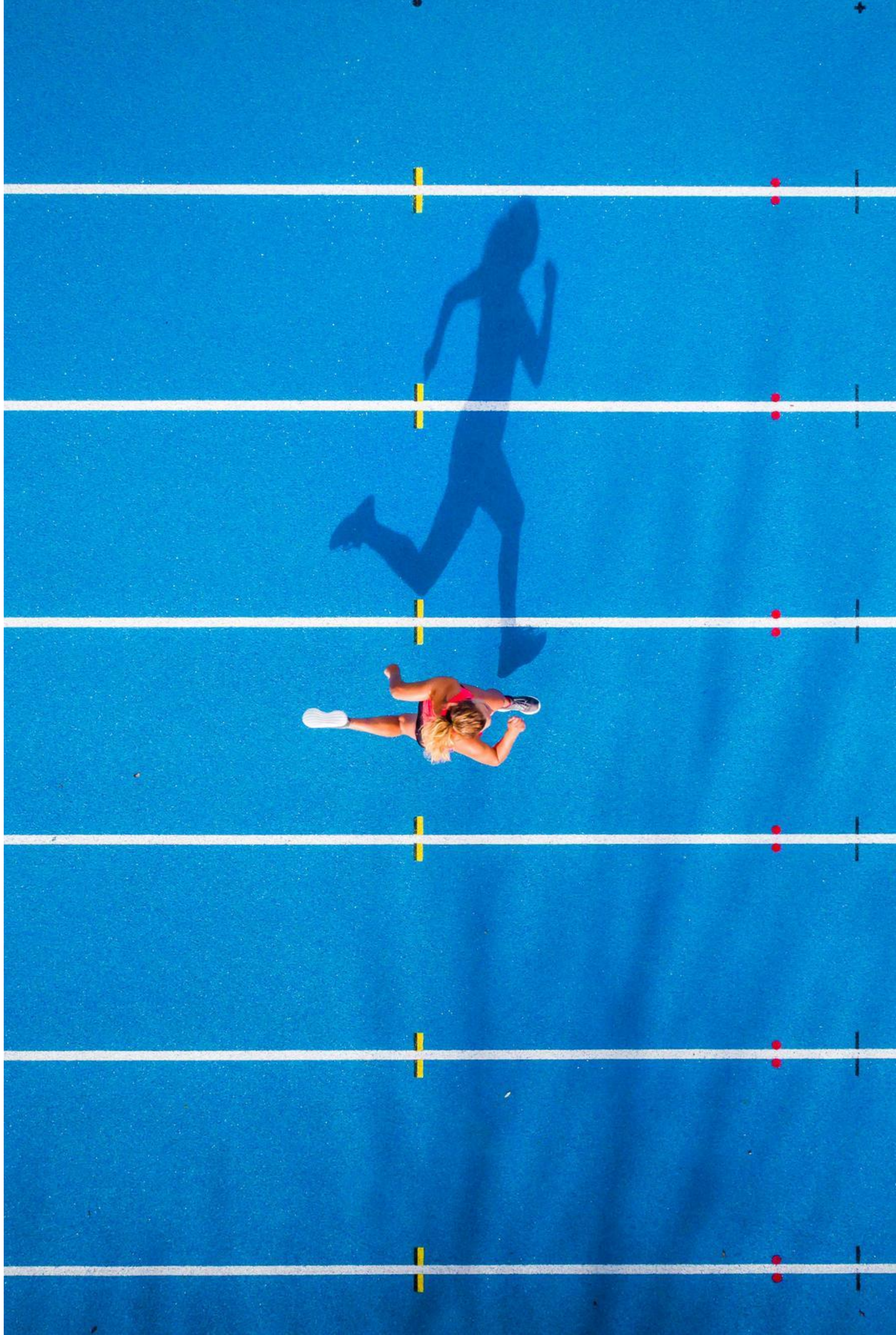
Investment Management

All Decision Makers
- Product: Impact Portfolios
- Service: Morgan Stanley Impact Quotient (MSIQ)

[1] Services may include a third-party provider, Foundation Source, for which a fee may be charged.
[2] Charitable Lead Trust (CLT); Charitable Remainder Trust (CRT), Investment Policy Statement (IPS); Donor Advised Fund (DAF)

Graystone Consulting
from Morgan Stanley

Budgeting



Budgeting Overview

To successfully execute a budget to fund grantees, the CFO must try to accurately project and match inflows (donations) to outflows (funding grantees).

Budgeting Complexities Arise From:

- **Non-contractual Donations**
  - Sporadic donations make it difficult to commit consistent funds to grantees
  - Grantees solicit funds from multiple non-profits for the same projects
  - Without fixed dollar contributions, the non-profit relies on variable market driven investment performance to fund grantees
- **Restricted Donations[1]**
  - Increasingly, donors prefer to make restricted donations consistent with the intent of their philanthropic goals
  - Disproportionate restricted donations may decrease the likelihood for project completion because funds are available for only specified parts of a project
  - Philanthropic dollars might sit idle for longer until the necessary funds are available for the unfunded part of the project
- **Lack of Coordination within the Charitable Ecosystem**
  - Duplicate projects across the same charitable ecosystem divide dollars and reduce the likelihood of future project completion and may result in time and money wasted when non-profits compete to complete similar projects

Solutions May Include:

- Non-profits may increase completion rates of projects by the board of directors and the development officer negotiating longer term contractual donations, providing visibility into funding status of projects and by coordinating with other non-profits in a target issue ecosystem to assign and prioritize funding for issue critical projects
- The intent is to put donated monies to work in issue critical projects as efficiently as possible to counteract idle monies the investment committee may retain in conservative investments to offset uncertainty in cash flows
- Coordination among the development officer, Program Officer, and the CFO to create a transparent funding plan indicating the prioritization of projects creates essential visibility for donors to make informed and more effective decisions. This way the non-profit and donors may be fully aligned in their roles and responsibilities to impact the issue

[1] For restricted donations, the non-profit can use the donations only for a purpose specified by the donor as opposed to non-restricted donations, which can be used for a purpose of the non-profit's choice.

Mitigating Budgeting Inefficiencies

1 Without contractual donations, longer term projects may not be completed

	Project 1	Project 2	Project 3
Step 1	✓		
Step 2	✓		
Step 3	✓		
Step 4	✓		
Completed	✓	×	×

Development officer should focus on negotiating long-term contractual donations in addition to annual donations

2 With contractual yet restricted donations, necessary funding for project steps is missing

	Project 1	Project 2	Project 3
Step 1	✓	✓ (Restricted)	✓ (Restricted)
Step 2	✓		✓ (Restricted)
Step 3	✓		✓
Step 4	✓	✓ (Restricted)	
Completed	✓	×	×

Development Officer should provide donors visibility into what has been funded and what needs to be funded to complete projects and balance restricted donations with sufficient unrestricted donations to avoid project funding shortfalls

3 Without coordination within the charitable ecosystem, there are missed opportunities to share resources

	Project 1	Project 2	Project 3
Step 1	✓	✓	✓
Step 2	✓		✓
Step 3	✓		✓
Step 4	✓	✓	
Completed	✓	×	×

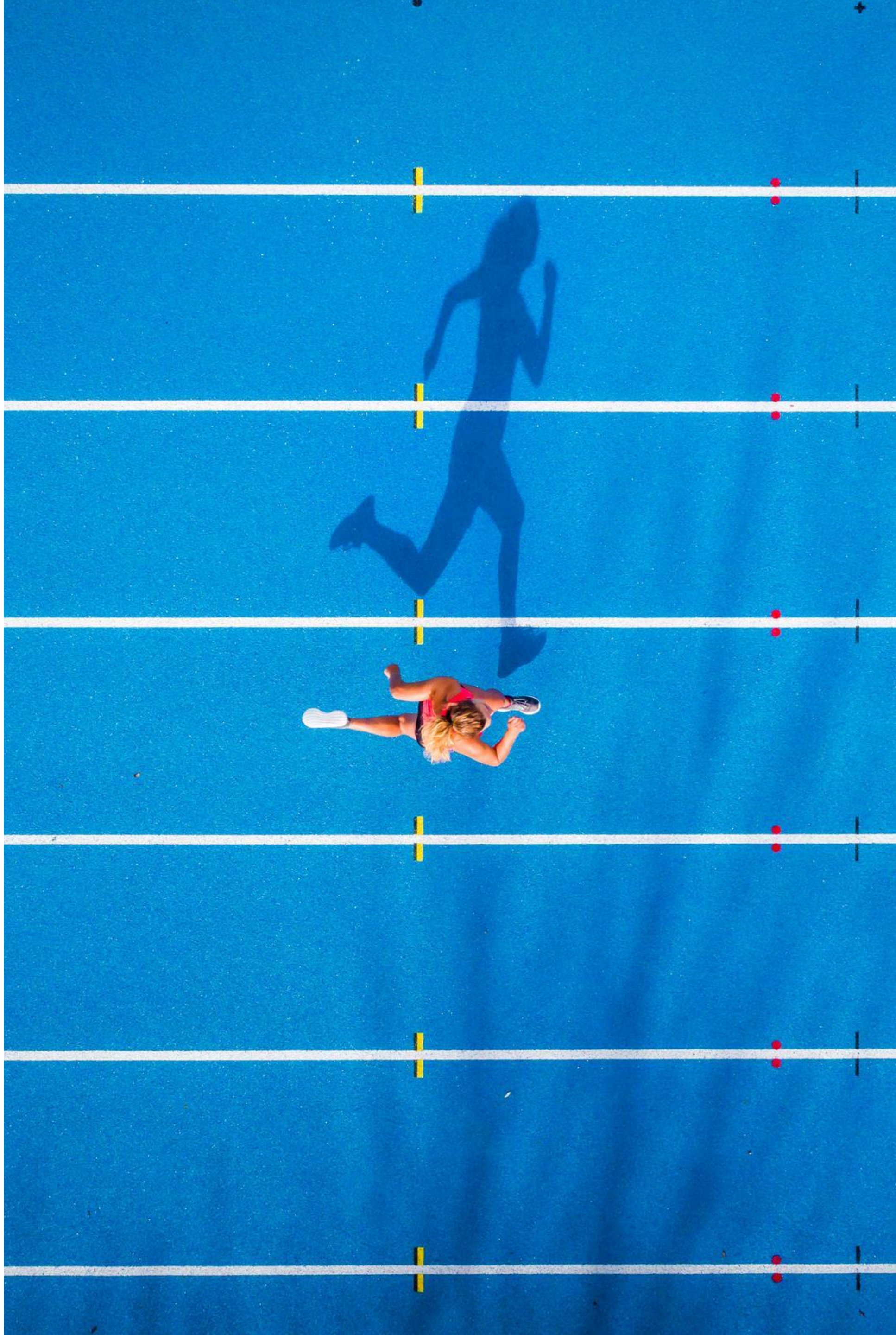
Program Officer should not be so focused that they do not understand the interdependence of projects

4 Fully visible, prioritized and engaged ecosystem

	Project 1	Project 2 (in/outsourced)	Project 3 (in/outsourced)
Step 1	✓	✓	✓
Step 2	✓	✓	✓
Step 3	✓	✓	✓
Step 4	✓	✓	✓
Completed	✓	✓	✓

Graystone Consulting
from Morgan Stanley

Investment Policy Statement



Investment Policy Statement Overview

Effects of budgeting inefficiencies may include the non-profit having reduced impact from:

1. **Time lost** with charitable funds remaining in non-profit asset pool and not deployed to impact issue
2. **Conservative bias/emphasis** in asset pool given uncertainty of when total necessary funds could be distributed to grantees and projects
3. **Reliance on market and investment performance** to shore up funding shortfalls for projects

The Importance of an Investment Policy Statement is to mitigate investment inefficiencies to more effectively deploy investments to better match shortfall/excess in cash flows for project funding and defuse inadvertent behaviors by:

- Memorializing in writing an investment plan and its underlying assumptions
- Clearly identifying duties and responsibilities
- Reinforcing trust, confidence and responsibility with regard to obligations to others
- Helping withstand time and superseding friction resulting from changes in personnel stewarding the assets
- Maintaining the integrity of the assets during periods of stress

Key components include:

- Asset allocation
- Spending policy
- Investment pools

Part One: Asset Allocation Overview

- The challenge for the Investment Committee lies in selecting the risk profile (asset allocation) of the assets best suited to satisfy the mission set out by the Board of Directors and the cash flow identified by the CFO working with the Development Officer and Program Officer. This necessitates weighing the benefits of higher allocations to Fixed Income or Equity.
- Does a non-profit assume a more conservative risk profile in order to provide more consistent cash flows for the grantees and potentially risk the long-term purchasing power of the investment portfolio and the non-profit's viability or does a non-profit assume a more aggressive risk profile in order to maintain the long-term purchasing power of the portfolio and potentially risk the impact of grantees whose projects may not be funded.

RISK SPECTRUM

100% Fixed Income ⟷ **100% Equity**

INCOME MATCHING AND RETURN SHORTFALL

- Over short periods of time, a significant allocation to fixed income may be reasonable, but in the long term, may jeopardize the sustainability of the portfolio
- If all the income from bonds is paid out then this portion of the portfolio may not grow over time, leaving a smaller part of the portfolio to bear the burden of supplying growth for the overall portfolio

RETURN POTENTIAL

- Over long periods of time, higher allocations to equity may help generate higher returns, but in the short term, may jeopardize consistency of cash flows
- While a non-profit's annualized return over time may appear acceptable, in volatile years, distributions may reduce the asset base and erode purchasing power

Part Two: Spending Policy Overview

1. In order to maintain the tax-exempt status, non-profits are required by the IRS to make annual distributions, which vary depending if the non-profit is public or private or the type of 501(c)(3) entity.
2. Non-profit portfolios are often designed to generate a return that not only funds these required distributions but also replenishes the additional annual drain on assets due to expenses and inflation in order to maintain the long-term purchasing power of the portfolio. A non-profit may employ a range of distribution criteria along the continuum of, including but not limited to a fixed dollar to a fixed percentage distribution each year.
3. As part of the methodology, a non-profit may also “smooth” the distributions by averaging the fixed dollar and/or percentage distribution over a number of years to further mitigate short-term market/performance fluctuations. The degree to which the criteria are chosen determines the in/consistency of the distributions and the un/sustainability of the non-profit.
4. It is critical that the distribution criteria be established by the Investment Committee in conjunction with the CFO and Program Officer so they may determine what must be distributed/dollar and what might be distributed/percentage.

RISK SPECTRUM

Fixed Dollar Distribution ⟷ **Combination Fixed Dollar and Percentage** ⟷ **Fixed Percentage Distribution**

SPENDING STABILITY

- In volatile years, a fixed dollar distribution may provide consistent cash flows to help ensure the completion of projects by identifying and distributing the dollar amount needed
- This helps the grantees impact the issue by completing projects in a timely and efficient manner
- This detracts from the Investment Committee’s ability to preserve the asset base in years of unexpected underperformance as the non-profit committed to a relatively higher distribution

SPENDING INSTABILITY

- In volatile years, a fixed percentage distribution may help insulate a portfolio from large drawdowns by tying the distribution to the performance of the portfolio
- This helps the Investment Committee preserve the asset base to maintain purchasing power over the longer term
- This hurts the grantees because in years of unexpected underperformance, the amount distributed may be less than needed

Part Three: Investment Pools Overview

Non-profits may choose to delineate assets by creating buckets (operating, investment and capital) each with a discrete purpose according to its anticipated use and timing for the assets

Cash | Fixed Income | Equities | Illiquids

Operating (CFO)

- Holds cash to fulfill operational needs and short-term cash flow requirements for grantees
- Uncertainty of donation stream and insufficient funding may cause non-profits to hold excess cash
- Define cash needs to maintain sufficient cash flow and better manage the budget to reduce excess cash held

Investment (Investment Committee)

- Surplus assets to be invested for the long-term sustainability of the non-profit
- Consider the balance held in the operating account when strategically allocating

Capital (Development Officer + Investment Committee)

- Holds proceeds (usually cash and equivalents) of fundraising campaign over a defined period of time or retains excess surplus (illiquids) for very long term until a future use is identified
- Utilized when a non-profit needs to fund a large scale and vital expansion

Non-profits may experience significant inefficiencies through the segmented governance of these funds:

- Each bucket of assets has the propensity to duplicate asset classes
- There may be a drag on investment returns due to excess allocation to cash as a result of each bucket being managed specifically and independently of the other two
- Generally, the greater the number of investment pools, the more conservative the overarching risk profile
- To evaluate the true risk profile of a non-profit, all asset pools should be considered in aggregate
- While cash may contribute positively and negatively, over longer periods of time, cash may contribute a negative real return, lower potential annualized return and the potential for fewer dollars to fund projects

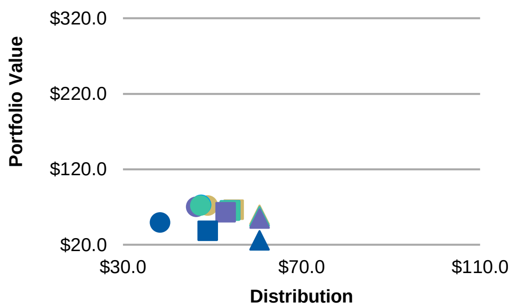
When considered in the aggregate, the propensity to repeat/duplicate asset classes in each bucket may be alleviated and the true risk profile of the portfolio may be considered. This requires ongoing coordination and collaboration among the Development Officer, CFO and Investment Committee.

Impact Investment Policy Decisions

The following charts show the results of investing $100MM over 10 years, given varying asset allocations and distribution constructs. Consideration should be taken into account when choosing what combination of asset allocation and distribution construct are utilized simultaneously.

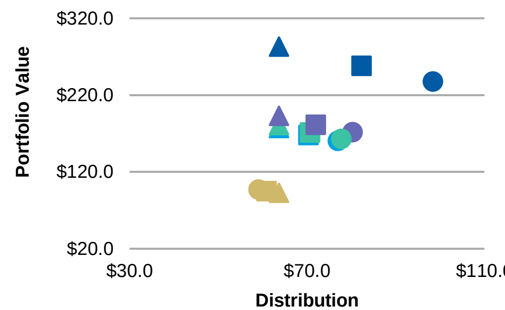
Same scale for comparison

5th Percentile (year 10)

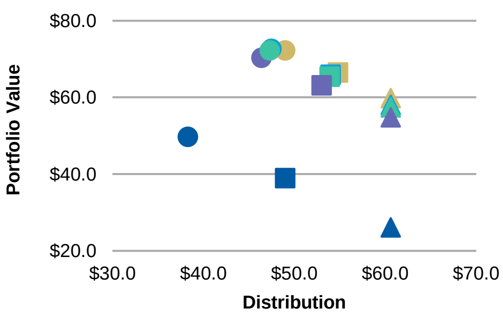


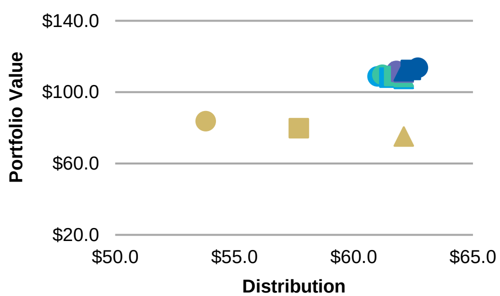
50th Percentile (year 10)

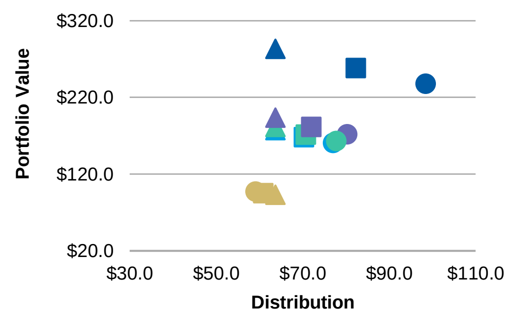
95th Percentile (year 10)



Blown up for clarity







Asset Allocation Key

1. 100% Fixed Income
2. 40% Equity; 35% Fixed Income; 25% Alts
3. 42% equity; 32% fixed income; 26% Alts
4. 48% Equity; 24% Fixed Income; 28% Alts
5. 100% Equity

Distribution Key

- ○ Fixed 5%
- □ 2.5% + $2.5MM growing with inflation
- △ $5MM growing with inflation

Calculations reflect hypothetical investment returns after 10 years. Calculations are exclusive of fees.
Please refer to the appendix for asset class benchmarks.

For hypothetical illustrative purposes only

Graystone Consulting
from Morgan Stanley

Impact Investment Policy Decisions - Distribution

The following table shows distribution amounts after investing $100MM over 10 years, given varying asset allocations and distribution constructs:

DISTRIBUTION AMOUNT

Asset Allocation

Distribution Construct

	100% Fixed Income	40% Equity; 35% Fixed Income; 25% Alternatives	42% Equity; 32% Fixed Income; 26% Alternatives	48% Equity; 24% Fixed Income; 28% Alternatives	100% Equity
Fixed 5%					
Cumulative	$53.8	$61.0	$61.2	$61.8	$62.7
Average	$5.4	$6.10	$6.12	$6.18	$6.27
Max	$5.9	$7.7	$7.8	$8.0	$9.8
Min	$4.9	$4.8	$4.7	$4.6	$3.8
2.5% + $2.5MM growing with inflation					
Cumulative	$57.7	$61.5	$61.7	$62.0	$62.4
Average	$5.8	$6.15	$6.17	$6.20	$6.24
Max	$6.1	$7.0	$7.1	$7.2	$8.2
Min	$5.5	$5.4	$5.4	$5.3	$4.9
Fixed $5MM growing with inflation					
Cumulative	$62.1	$62.1	$62.1	$62.1	$62.1
Average	$6.2	$6.21	$6.21	$6.21	$6.21
Max	$6.4	$6.4	$6.4	$6.4	$6.4
Min	$6.1	$6.1	$6.1	$6.1	$6.1

The cumulative distribution reflects the 50th percentile after 10 years. The average, max and min distributions reflect the 50th, 95th and 5th percentiles respectively after 10 years divided by 10.
Calculations reflect hypothetical investment returns after 10 years. Calculations are exclusive of fees. Please refer to the appendix for asset class benchmarks.

For hypothetical illustrative purposes only

Graystone Consulting
from Morgan Stanley

Impact Investment Policy Decisions – Portfolio Value

The following table shows portfolio values after investing $100MM over 10 years, given varying asset allocations and distribution constructs:

PORTFOLIO VALUE

Asset Allocation

Distribution Construct

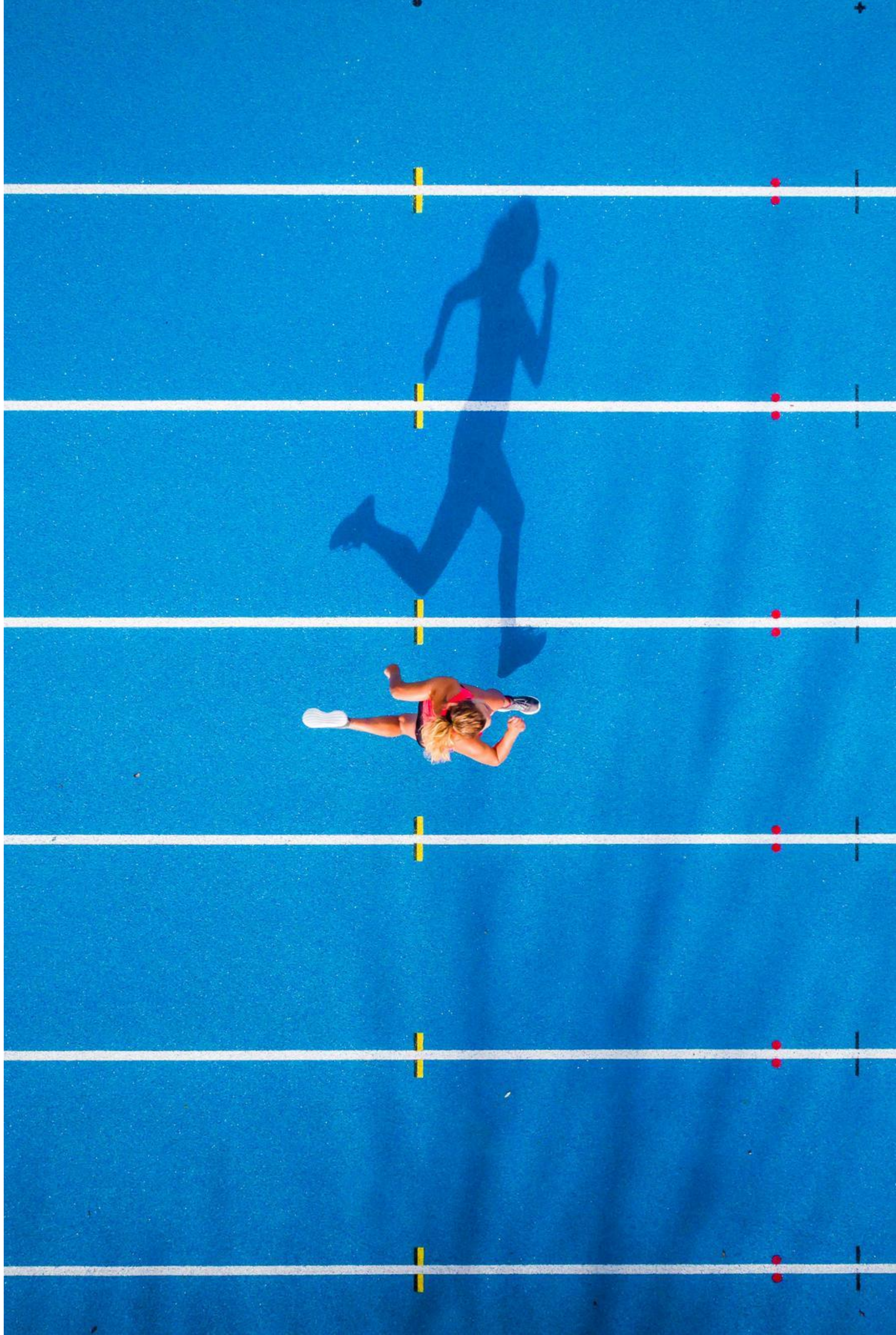
	100% Fixed Income	40% Equity; 35% Fixed Income; 25% Alternatives	42% Equity; 32% Fixed Income; 26% Alternatives	48% Equity; 24% Fixed Income; 28% Alternatives	100% Equity
Fixed 5%					
95th Percentile	$96.9	$160.4	$163.0	$171.8	$237.7
50th Percentile	$83.7	$108.8	$109.7	$111.8	$113.5
5th Percentile	$72.2	$72.6	$72.2	$70.3	$38.3
2.5% + $2.5MM growing with inflation					
95th Percentile	$94.9	$168.1	$171.2	$181.3	$258.1
50th Percentile	$79.6	$108.0	$108.9	$111.3	$112.4
5th Percentile	$66.5	$65.9	$65.4	$63.1	$38.9
Fixed $5MM growing with inflation					
95th Percentile	$93.0	$177.3	$181.2	$193.3	$283.3
50th Percentile	$75.1	$107.3	$108.3	$110.9	$111.6
5th Percentile	$59.8	$58.0	$57.4	$54.8	$26.1

Calculations reflect hypothetical investment returns after 10 years. Calculations are exclusive of fees. Please refer to the appendix for asset class benchmarks.

For hypothetical illustrative purposes only

Graystone Consulting
from Morgan Stanley

Strategies for Non-Profits



Strategies Deployed as Techniques to Mitigate Challenges

- Through continued integration and collaboration within the non-profit and across its donors and grantees, the non-profit may benefit from strategies that mimic and enhance techniques to address challenges
- The following strategies may be utilized in combination with a non-profit

Strategies	CHALLENGES			TECHNIQUES		
	Lack of Coordination within Ecosystem	Non/contractual Donations	Un/restricted Donations	Asset Allocation	Spending Policy	Investment Pools
Donor Advised Fund[1]	✓	✓	✓		✓	✓
Program Related Investment[1]		✓	✓	✓	✓	
Charitable Lead/Remainder Trusts[1]		✓		✓	✓	✓

Please note that the examples on the subsequent pages assume the following:

- $100 mil beginning portfolio value
- 5% annual distribution
- 10-year time horizon

Calculations are based on historical asset class returns (see appendix) from 2008-2017

[1] Please refer to the glossary for definitions

Non-Profit With Donor Advised Fund (DAF)

Stabilizing Cash Flows

PROBLEMS:

- Most non-profits have mandatory distribution requirements to fulfill and maintain their non-profit status, so distributions are made in good/bad market environments where distributions may be larger/smaller than needed
- Uncertainty in size and timing of donations and the potential specifically of how the funds may be used may result in projects not being fully funded and completed

TECHNIQUES:

- **Investment Pools –** if a non-profit were to establish an asset bucket that was not obligated to distribute and was not restricted then the non-profit might have the ability to further manage the size and timing of distributions to fund projects
- **Spending Policy –** for non-profits to generate more consistent distributions, a DAF can be established as “rainy day” fund that collects the surplus portion of distributions in good markets in order to distribute them when cash flows are in deficit in bad markets

BENEFITS:

- **Non-contractual and restricted donations** – a DAF characteristically does not require annual distributions, so its assets may grow tax-exempt. Additionally, the donor chooses when to make a distribution so there is the potential for the DAF distributions to fulfill the shortfalls in funding due to non-contractual and restricted donations
- **Lack of coordination within ecosystem** – a DAF may be tied to a community foundation so multiple non-profits in a common/shared issue ecosystem may better coordinate their activities

NOTES:

- **Complexity and Cost** – although this strategy is an effective best practice, all non-profits should weigh the impact of the added complexity of managing an additional pool of assets and the costs involved
- **Coordination –** required among CFO, Investment Committee, Development Office, and Program Officer as well as approval from the board
- **Legal Considerations –** please consult your legal and tax advisors to check that these techniques are applicable for the charitable entity

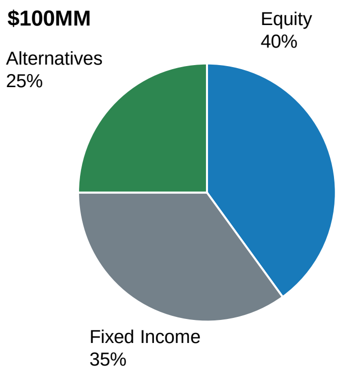
Pairing DAF with Non-Profit

Stabilizing Cash Flows | Hypothetical Illustration

Beginning Assumptions:

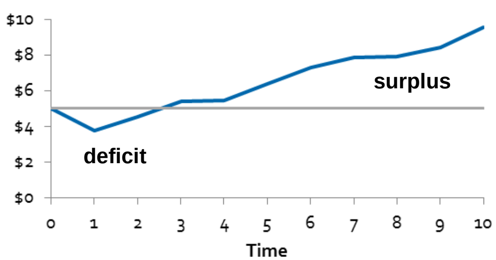
Non-Profit

$100MM



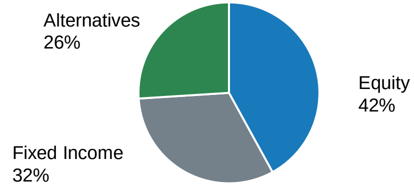
Results of Annual 5% Distribution:

Distribution ($MM)



Non-Profit

$95MM

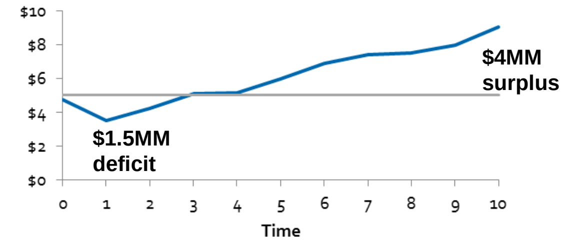


DAF

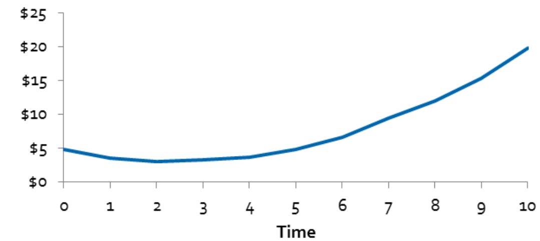
$5MM

Results of Annual 5% Distribution:

Distribution ($MM)



DAF Portfolio Value ($MM)



<u>Composition of $5.0 MM distribution</u>

- At time 0, the grantee would receive $4.75MM from the non-profit and $250k from the DAF
- At time 1, the grantee would receive $3.5MM from the non-profit and $1.5MM from the DAF
- At time 2, the grantee would receive $4.25MM from the non-profit and $750k from the DAF
- At time 3, the grantee would receive $5MM from the non-profit. The DAF would receive $90k from the non-profit
- At time 4, the grantee would receive $5MM from the non-profit. The DAF would receive $128k from the non-profit
- At time 5, the grantee would receive $5MM from the non-profit. The DAF would receive $990k from the non-profit
- At time 6, the grantee would receive $5MM from the non-profit. The DAF would receive $1.9MMfrom the non-profit
- At time 7, the grantee would receive $5MM from the non-profit. The DAF would receive $2.4MM from the non-profit
- At time 8, the grantee would receive $5MM from the non-profit. The DAF would receive $2.5MM from the non-profit
- At time 9, the grantee would receive $5MM from the non-profit. The DAF would receive $3MM from the non-profit
- At time 10, the grantee would receive $5MM from the non-profit. The DAF would receive $4MM from the non-profit

Calculations reflect hypothetical investment returns after 10 years. Calculations are exclusive of fees. Please refer to the appendix for asset class benchmarks.

Decision Makers

CFO
Board of Directors
Program Officer
Development Officer
Investment Committee

Non-Profit with Program Related Investment (PRI)

Using the Balance Sheet to Increase Impact

PROBLEMS:

- Most non-profits have mandatory distribution requirements to fulfill and maintain their non-profit status, so distributions are made in good/bad market environments where distributions may be larger/smaller than needed
- Uncertainty in size and timing of donations and the potential specifically of how the funds may be used may result in projects not being fully funded and completed

TECHNIQUES:

- **Spending Policy –** a non-profit may make a PRI or loan to a grantee to support or further its exempt activities. The PRI loan amount may qualify for and alleviate the required annual distribution
- **Asset Allocation –** because the PRI precludes all or part of the distribution, the non-profit may assume a more aggressive risk profile and have higher allocations to equities and illiquids in an effort to grow the non-profit assets at a greater rate and potentially increase the size of future distributions given a potentially larger asset base

BENEFITS:

- **Non-contractual and restricted donations –** a PRI provides consistent and sustainable funding over a period of time. The loans may be for capacity building or program expansion and utilize philanthropic funds in a way that maintains grant-making resources and allows for a greater range of assistance over the long-term
- **Access to cheaper financing –** grantees may have access to less expensive financing via the PRI
- **More appropriate timing of charitable distributions –** in positive return environments, investment returns compounding on the principal not distributed is beneficial. Additionally loans are more likely to be repaid with interest. In negative return environments, investment returns reverse the impact of the potential compounding. If repayment does not occur, a non-profit may convert the PRI to a direct grant for accounting purposes

NOTES:

- **Complexity and Cost** - although this strategy is an effective best practice, all non-profits should weigh the impact of the added complexity of managing a loan portfolio and the costs involved
- **Coordination** – required among CFO, Investment Committee, Program Officer, and Development Officer as well as approval from the board
- **Legal Considerations** – please consult your legal and tax advisors to check that these techniques are applicable for the charitable entity

Graystone Consulting
from Morgan Stanley

Pairing PRI With Non-Profit

Using the Balance Sheet to Increase Impact | Hypothetical Illustration

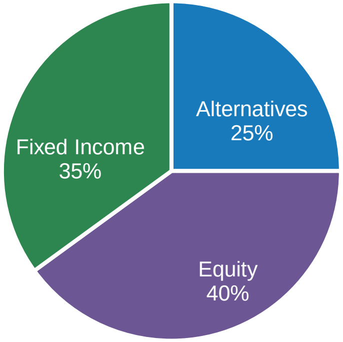
	I. Direct Grants	II. PRI		
Impact on Non-Profit	fulfill distribution with one-time payment	distribution retained	+	PRI rate x 5% money retained
Use When	goal is to distribute	appropriate and available PRIs		

Scenario 1: Direct Grants

- The non-profit pays 5% of its value each year as direct grants

Non-Profit

$100MM



Hypothetical Portfolio Values in 10 Years ($M)

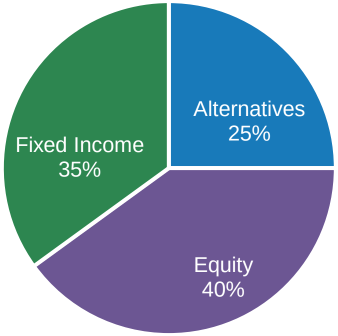
Non-Profit	114.0
Grantees	76.4
Aggregate	190.4

Scenario 2: Laddered One-Year PRIs

- The non-profit makes a series of one-year PRI loans
- A new loan is made at the beginning of each year
- The principal and interest are paid at the end of the same year

Non-Profit

$100MM



Hypothetical Portfolio Values in 10 Years ($M)

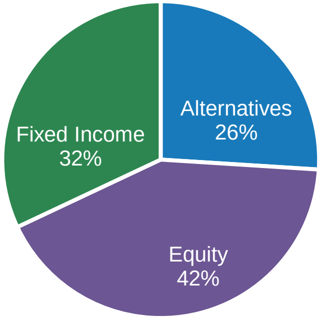
Non-Profit	188.0
Grantees	2.4
Aggregate	190.4

Scenario 3: Laddered One-Year PRIs – More Aggressive Allocation

- The non-profit makes a series of one-year PRI loans
- A new loan is made at the beginning of each year
- The principal and interest are paid at the end of the same year

Non-Profit

$100MM



Hypothetical Portfolio Values in 10 Years ($M)

Non-Profit	188.3
Grantees	2.4
Aggregate	190.7

By making laddered PRI loans in scenarios 2 and 3, the non-profit satisfies the annual minimum distribution requirement without making direct grants that would reduce the value of the non-profit portfolio. Thus, the non-profit has assisted grantees in the near term and maintains a higher asset base for potentially greater distributions to grantees in the future. The above examples show how a change in risk profile might be considered but may not be appropriate.

Calculations reflect hypothetical investment returns after 10 years. Calculations are exclusive of fees. Please refer to the appendix for asset class benchmarks.

Non-Profit With Split Interest Trusts (CRT/CLT)

Using Cash Flows of Donations Efficiently

PROBLEMS

- Most non-profits have mandatory distribution requirements to fulfill and maintain their non-profit status, so distributions are made in good/bad market environments where distributions may be larger/smaller than needed
- Uncertainty in size and timing of donations and the potential specificity of how the funds may be used may result in projects not being fully funded and completed

TECHNIQUES

If a non-profit receives cash flows from both a Charitable Remainder Trust (CRT) and a Charitable Lead Trust (CLT), the non-profit effectively is receiving current income from the CLT and a future lump sum from the CRT, which together mimic the payout of a fixed income investment. The relatively known cash flows may be used accordingly.

- **Spending policy:** The CRT and CLT cash flows may more regularly fund steps of projects over time
- **Investment pools:** The cash flows considered together may be used to mimic the payout of a fixed income investment
- **Asset allocation:** When considering the entirety of a non-profit's assets, a non-profit benefiting from CRT(s) and CLT(s) may choose to be invested more aggressively and have higher allocations to equities and illiquids

BENEFITS

- **Non-contractual donations:** Because CRTs and CLTs are trusts, there is the potential to name the specific non-profit that is to receive the cash flows from the trusts. The result is the potential for creating a contractual donation (although the trust may choose the beneficiary)

NOTES

- **Complexity and cost:** Although this strategy is an effective best practice, all non-profits should weigh the impact of the added complexity of understanding trust structures and the costs involved
- **Coordination:** Required among the Program Officer, Development Office, Investment Committee, and CFO as well as board approval
- **Legal considerations:** Please consult your legal and tax advisors to check that these techniques are applicable for the charitable entity

Graystone Consulting
from Morgan Stanley

Pairing CLT/CRT with Non-Profit

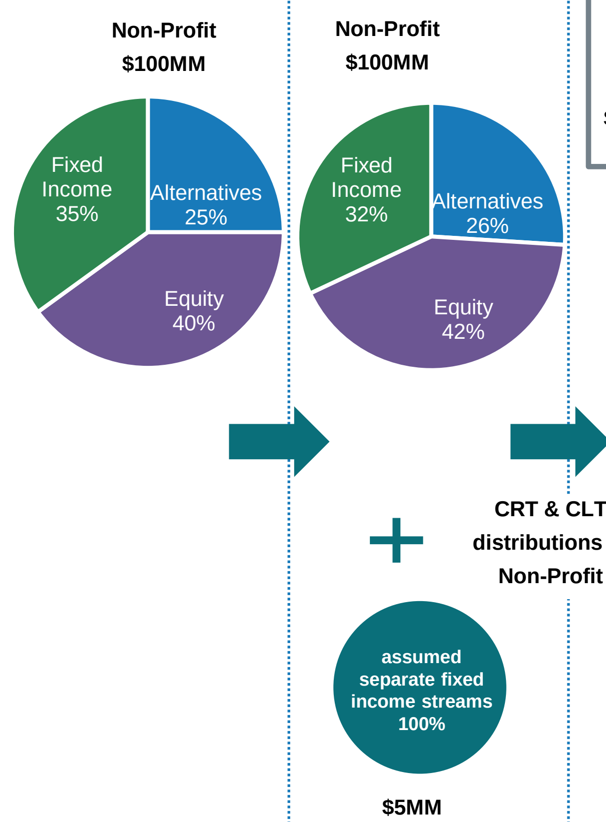
Using Cash Flows Of Donations Efficiently | Hypothetical Illustration

Cash Flows of Required Distributions

	CRT		CLT	
year 1	cash flow		cash flow	
year 2	cash flow		cash flow	
year 3	cash flow		cash flow	
year 4	cash flow		cash flow	
year 5	cash flow		cash flow	
year 6	cash flow		cash flow	
year 7	cash flow		cash flow	
year 8	cash flow		cash flow	
year 9	cash flow		cash flow	
year 10	cash flow	remainder	cash flow	remainder
	to donor	**to non-profit**	**to non-profit**	**to beneficiary**

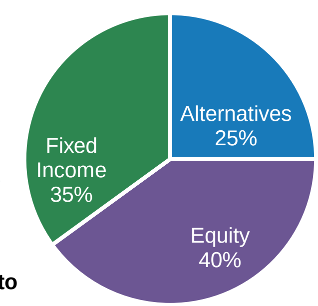
$5MM

Assumed Separate Fixed Income Streams



POTENTIAL BENEFIT = $280,309

adjusted non-profit allocation performance	*less*	original non-profit allocation performance
$190,710,516		$190,430,207

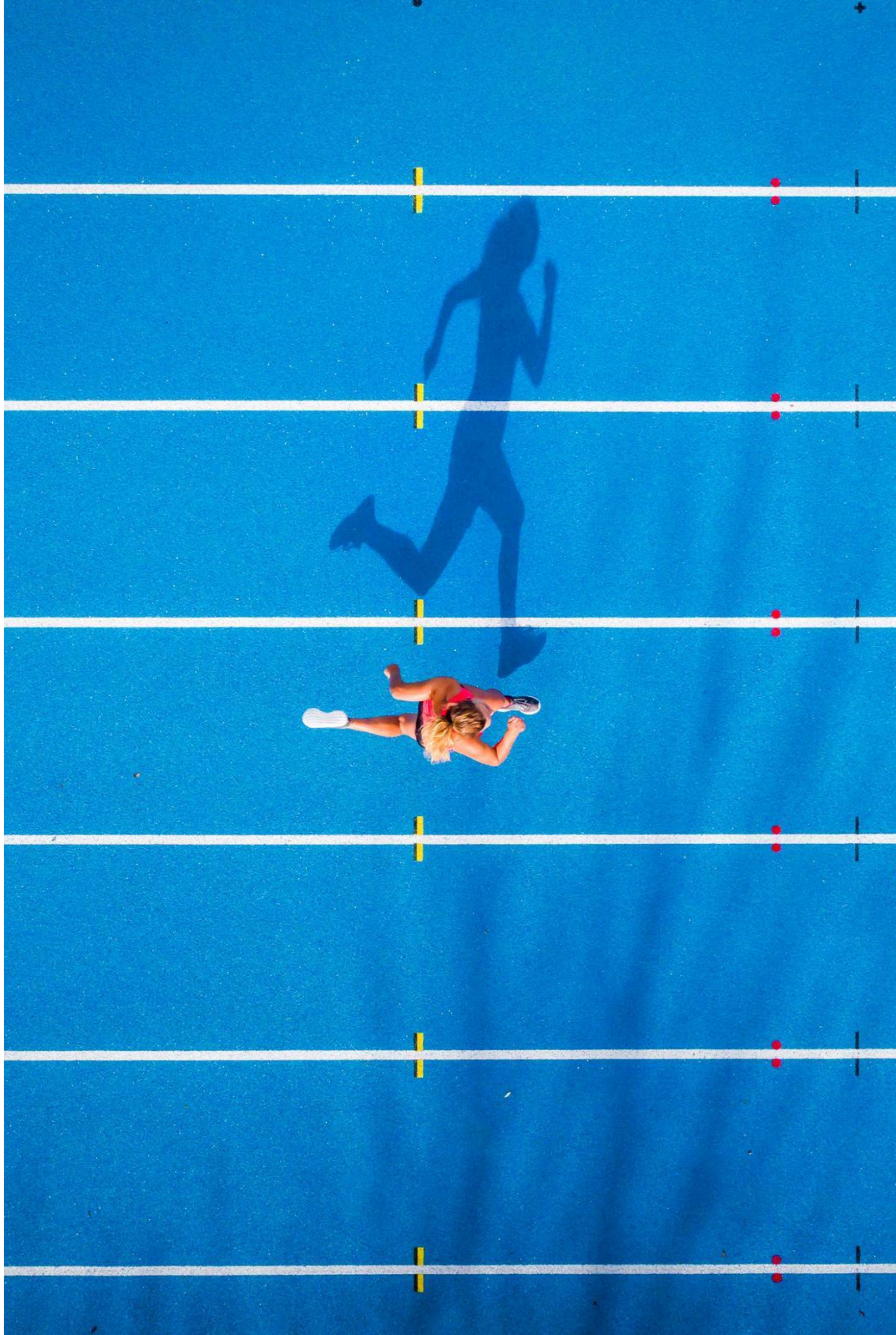


Non-Profit
$105MM

Calculations reflect hypothetical investment returns after 10 years. Calculations are exclusive of fees. Please refer to the appendix for asset class benchmarks.

Graystone Consulting from Morgan Stanley

Conclusion: A New Paradigm



Conclusion: A New Paradigm

This presentation provides a prudent sequence for non-profit decision making and introduces strategies, techniques and best practices that require a holistic and integrated approach to managing a non-profit in order to achieve the greatest potential philanthropic impact. To achieve this, a non-profit must embrace the interdependency of its strategic and investment management areas. The new paradigm necessitates:

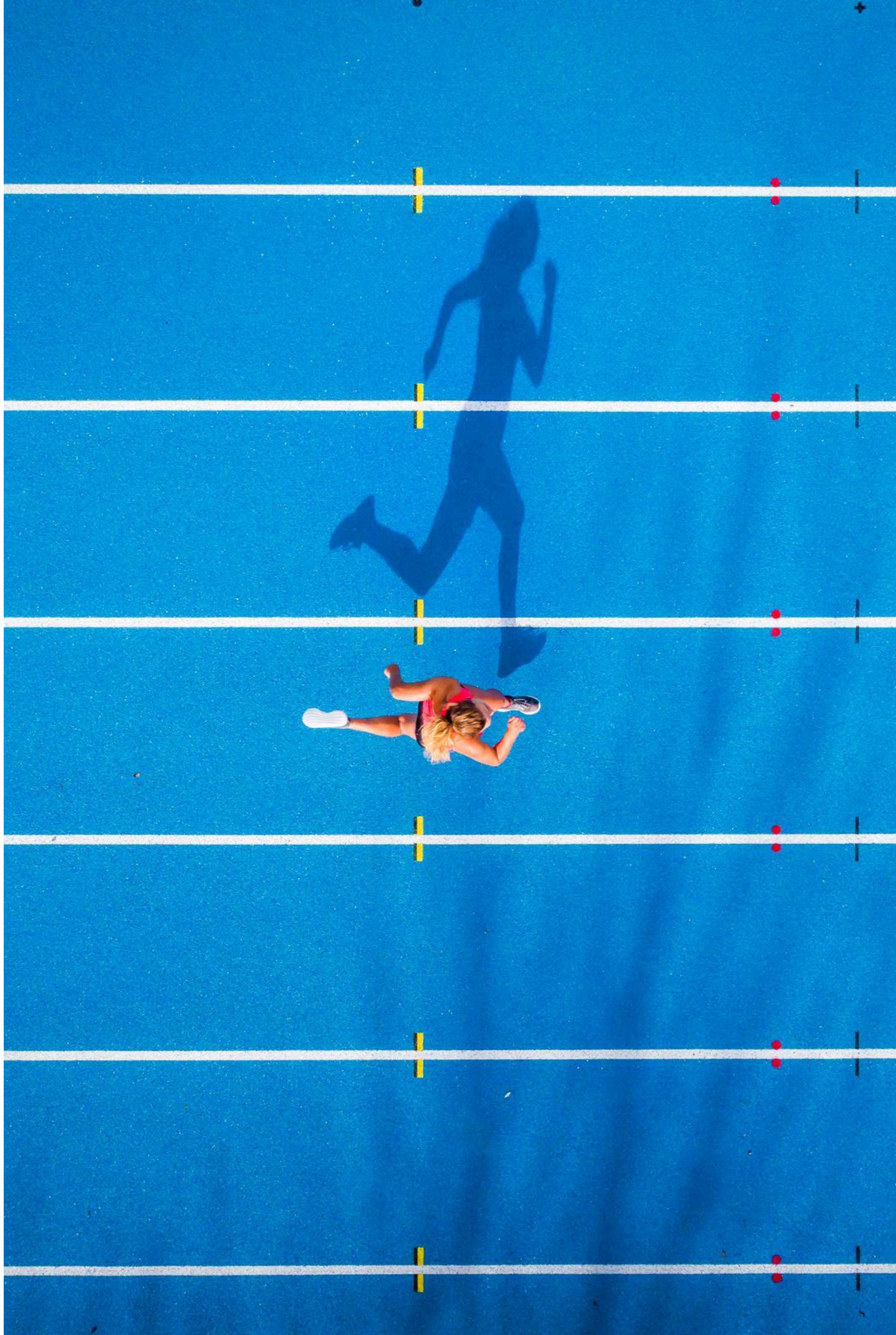
- **Emphasis** on the philanthropic intent and the potential impact on the issue.
- **Alignment** of investment assets with charitable deployment of cash.
- **Holistic view.** Philanthropic distributions and investing are interdependent and, when considered together, may significantly increase the philanthropic impact of the non-profit.
- **Education:** Whether internally across functional disciplines and/or among/within multiple organizations, harness an environment of shared knowledge, development and growth. Sharing/understanding favorable and less favorable outcomes enables more decision makers to adapt/adjust with the intention of harnessing better future outcomes.
- **Uncertainty:** Understand what cannot be controlled (financial markets) and scenario plan (combination of techniques) around this uncertainty.
- **Innovation:** Experiment and challenge in order to evolve and grow from experiential success and failure.

For more information on the strategies, techniques and best practices described, please refer to the following Morgan Stanley publications:

- Foundation and Endowment Management: Theory and Practice
- The Importance of an Investment Policy Statement
- Philanthropic Toolkit
- The Art of Investing in Private Investments
- Portfolio Construction is a Budgeting Process
- Maximizing Charitable Impact: Pairing Donor Advised Funds and Foundations
- Taxable Foundations
- Program Related Investments
- Philanthropic Tax-deferred Bond: Pairing CRT(s) and CLT(s)

Graystone Consulting
from Morgan Stanley

Appendix



Glossary

Program Related Investment (PRI): A PRI is made by a charitable organization to support its exempt activities and further its exempt purpose. A PRI may be in the form of a loan, a loan guarantee, real estate or equity investments in businesses. The 5% minimum distribution can be satisfied by direct grants as well as by program-related investments (PRI).

Donor Advised Fund (DAF): A charitable fund administered by a public charity to which cash or property is donated. Donations are invested according to donor's advice and grants made to a qualified public charity according to donor's recommendations, subject to approval of administering charity.

Charitable Lead Trust (CLT): An irrevocable trust, to which cash or property is donated, that makes a fixed payment (at least annually) to a charity for a specified term of years. At the end of payment term, donor or other beneficiary(ies) receive any remaining trust property.

Charitable Remainder Trust (CRT): An irrevocable trust, to which cash or property is donated, that makes a fixed payment (at least annually) to donor and/or other beneficiary(ies) for their lives or a specified term. The charity receives any remaining trust assets at end of payment term.

Graystone Consulting
from Morgan Stanley

Hypothetical Asset Class Benchmarks

Equities	**MSCI All Country World IMI**
Global Equities	MSCI All Country World IMI
Fixed Income & Preferreds	**Bloomberg U.S. Aggregate Bond Index**
US Fixed Income Taxable	Bloomberg U.S. Aggregate Bond Index
Alternatives	**HFRI Funds Weighted Index**
Real Assets	33% Bloomberg Commodity Index, 33% FTSE EPRA NAREIT Global Total Return, 33% Alerian Energy MLP Total Return Index
Absolute Return Assets	33% HFRI Equity Market Neutral Index, 33% HFRI Relative Value Total Index, 33% HFRI Relative Value FI- Corp Index
Equity Hedge Assets	50% CS Tremont Global Macro Index, 50% BarclayHedge BTop50
Private Investments	50% NCREIF Property Index, 50% Cambridge Associates US Private Equity Index

Index Definitions

MSCI All Country World IMI - This is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets

Bloomberg U.S. Aggregate Bond Index - Covers the U.S. Dollar-denominated, investment-grade, fixed-rate, taxable bond market segment of SEC-registered securities. The index includes bonds from the U.S. Treasury, Government-Related, Corporate, Mortgage-Backed, Asset-Backed, and Commercial Mortgage-Backed Securities sectors.

Bloomberg Commodity Index - is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. Roll period typically occurs from 6th-10th business day based on the roll schedule.

FTSE EPRA NAREIT Global Total Return - This index reflects general trends in real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposure, and development of income-producing real estate

Alerian Energy MLP Total Return Index - A composite of the 50 most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class

HFRI Equity Market Neutral Index - Equity Market Neutral strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both Factor-based and Statistical Arbitrage/Trading strategies. Factor-based investment strategies include strategies in which the investment thesis is predicated on the systematic analysis of common relationships between securities. In many but not all cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified.

HFRI Relative Value Total Index - This index includes strategies that attempt to realize valuation discrepancies in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager.

HFRI Relative Value FI- Corp Index - This index includes strategies that attempt to realize of a spread between related instruments in which one or multiple components of the spread is a corporate fixed income instrument. These strategies seek to isolate attractive opportunities between a variety of fixed income instruments, typically realizing an attractive spread between multiple corporate bonds or between a corporate and risk-free government bond.

CS Tremont Global Macro Index – that measures the aggregate performance of global macro funds. Global macro funds typically focus on identifying extreme price valuations and leverage is often applied on the anticipated price movements in equity, currency, interest rate and commodity markets. Managers typically employ a top-down global approach to concentrate on forecasting how political trends and global macroeconomic events affect the valuation of financial instruments.

BarclayHedge BTop50 - This index seeks to replicate the composition of the managed futures industry with regard to trading style and overall market exposure. The largest investable trading advisor programs, as measured by assets under management, are selected for inclusion in the index.

NCREIF Property Index - This index measures the performance of a very large pool of commercial real estate properties acquired in the private market for investment purposes. The data are updated quarterly with a lag of several months.

Cambridge Associates US Private Equity Index - This index is based on data compiled from a substantial number of U.S. private equity funds (buyout, growth equity, private equity energy and mezzanine funds), including fully liquidated partnerships. Historic quarterly returns are updated in each year-end report to adjust for changes in the index sample.

Disclosures

This material is provided for discussion purposes only by Morgan Stanley Wealth Management ("Morgan Stanley") and for general informational and educational purposes to our clients/investors ("investors") based upon information generally available to the public from sources believed to be reliable. Morgan Stanley makes no representation as to the accuracy or completeness of data from sources outside of Morgan Stanley. The views and opinions presented may differ materially from the views and opinions of others at Morgan Stanley and/or other businesses/affiliates of Morgan Stanley. All expressions of opinion are subject to change without notice and are not intended to be a forecast of future events or results.

This material does not take into account your personal circumstances and we do not represent that this information is complete or applicable to your situation. We are not providing you with investment, tax or legal advice. You should consult your own accounting, tax, legal, or other advisors with respect to the appropriateness for you of any investment or strategy and to determine whether the analyses in the material applies to your specific circumstances. Particular legal, accounting and tax restrictions applicable to you, margin requirements and transaction costs may significantly affect the structures discussed, and we do not represent that results indicated will be achieved.

This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The sole purpose of this material is to inform, and it in no way is intended to be an offer or solicitation to purchase or sell any security, other instrument, investment, service or trading strategies, to attract any funds or deposits or an offer to buy or sell the asset classes or investment styles mentioned herein nor is Morgan Stanley soliciting an offer to buy or sell them.. Investments mentioned may not be appropriate for all investors.

Any product discussed herein may be purchased only after an investor has carefully reviewed the offering memorandum and executed the subscription documents. Morgan Stanley has not considered the actual or desired investment objectives, goals, strategies, guidelines, or factual circumstances of any investor in any fund(s). Before making any investment, each investor should carefully consider the risks associated with the investment, as discussed in the applicable offering memorandum, and make a determination based upon their own particular circumstances, that the investment is consistent with their investment objectives and risk tolerance. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor or Private Wealth Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

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.

All data and information is as of 06/2019 and subject to change. Morgan Stanley undertakes no obligation to update the material as new or updated information becomes available.

U.S. tax law may limit the ability of charitable foundations to invest in high-risk investments (such as alternative investments) and such investments may subject any such foundation to significant excise taxes. Charitable foundations are therefore strongly encouraged to consult their own accounting, tax and legal counsel prior to entering into any high-risk investment, including any alternative investment.

Morgan Stanley Smith Barney LLC does not accept appointments nor will it act as a trustee but it will provide access to trust services through an appropriate third-party corporate trustee.

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. Investors should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning, charitable giving, philanthropic planning and other legal matters.

Graystone Consulting
from Morgan Stanley

Disclosures

Investing in the market entails the risk of principal loss as well as market volatility. The value of all types of securities may increase or decrease over varying periods.

Asset allocation, diversification and rebalancing do not assure a profit or protect against loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Please consult your tax advisor before implementing such a strategy.

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.

Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Investors should consult their own tax and legal advisors as Morgan Stanley 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 Smith Barney LLC (“Morgan Stanley”) and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

Investing in stock securities involves volatility risk, market risk, business risk, and industry risk. The prices of stocks fluctuate. Volatility risk is the chance that the value of a stock will fall. Market risk is the chance that the prices of all stocks will fall due to conditions in the economic environment. Business risk is the chance that a specific company’s stock will fall because of issues affecting it such as the way the company is managed. Industry risk is the chance that a set of factors particular to an industry group will adversely affect stock prices within the industry.

The Morgan Stanley Global Impact Funding Trust, Inc. (“MS GIFT, Inc.”) is an organization described in Section 501(c) (3) of the Internal Revenue Code of 1986, as amended. MS Global Impact Funding Trust (“MS GIFT”) is a donor-advised fund. Morgan Stanley Smith Barney LLC provides investment management and administrative services to MS GIFT. The Donor Circular & Disclosure Statement describes the risks, fees and expenses associated with establishing and maintaining an MS GIFT account. Read it carefully before contributing.

The returns on a portfolio consisting primarily of Environmental, Social and Governance (“ESG”) aware investments 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

Graystone Consulting
from Morgan Stanley

Disclosures

Important: The projections or other information generated by the Wealth Strategies Analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results generated by a Monte Carlo analysis will vary with each use and over time because each portfolio simulation is randomly generated.

Our analysis of asset classes and their effects within a portfolio is heavily dependent on our analysis of historical data. No assurance can be given that historical parameters will accurately predict future performance. Past performance is no guarantee of future results. Actual results may vary.

Any hypothetical scenarios and results included in this material are not recommendations to pursue any specific strategy. They are shown for illustration purposes only and are not intended to represent future performance of any particular investment. Your actual results may differ. The principal value and investment return of an investment will fluctuate with changes in market conditions, may be worth more or less then original cost. Taxes may be due upon withdrawal.

Hypothetical performance should not be considered a guarantee of future performance or a guarantee of achieving overall financial objectives.

Hypothetical performance results have inherent limitations and do not reflect actual performance, trading or decision making. 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. Actual performance results of accounts vary due to , for example, market factors (such as liquidity) and investor-specific factors (such as investment vehicle selection, timing of contributions and withdrawals, restrictions and rebalancing schedules). Investors would not necessarily have obtained the performance results shown here if they had invested in accordance with any asset allocation, idea or strategy for the periods indicated. The results vary and reflect material economic or market factors such as liquidity constraints or volatility, which have an important impact on decision making and actual performance.

Despite the limitations of hypothetical performance, the hypothetical performance results may allow investors and Financial Advisors to obtain a sense of the risk/return trade-off of different asset allocation constructs. The hypothetical performance results in this material are calculated using returns of benchmark indices for the asset classes, and not the returns of securities, funds or other investment products.

Since the future cannot be forecast, actual results will vary from the information shown for the future, including estimates and assumptions. The results may vary with each use and over time. It is possible that these variations may be material. The degree of uncertainty normally increases with the length of the future period covered. As a result, Morgan Stanley cannot give any assurances that any estimates, assumptions or other aspects of the following analyses will prove correct. They are subject to actual known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those shown.

Graystone Consulting
from Morgan Stanley

Disclosures

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. Investors cannot invest directly in an index.

Blended index portfolio performance is shown for illustration purposes only. Hypothetical performance has inherent limitations and does not reflect actual performance, trading or decision making. The results vary and reflect material economic or market factors such as liquidity constraints or volatility, which have an important impact on decision making and actual performance.

Fees reduce the performance of actual accounts: None of the fees or other expenses (e.g., commissions, mark-ups, mark-down, advisory fees) associated with actual trading or accounts are reflected in the asset allocation strategy or ideas. 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.

Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: **NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY**

Morgan Stanley Wealth Management is a business of Morgan Stanley Smith Barney LLC.

CRC 5320265 12/2022