Morgan Stanley

Hedging & Monetization:

Low-Cost Basis Concentrated Stock

Introduction to Managing Concentrated Stock Positions

The **Advisor Solutions Team** at Morgan Stanley provides first-class service to our clients in a way that reflects our commitment to thought leadership, innovative solutions, and cutting-edge strategies.
For concentrated stock positions, the Advisor Solutions Team strategizes with clients on approaches that aim to mitigate risk and monetize equity positions in a tax efficient manner

Concentrated Stock Position

A **concentrated stock position** is an investment in a single stock that represents a large percentage of a client's investment portfolio value. A concentrated stock position has the potential to drive significant value, however it can also present increased risk due to the lack of diversification and market volatility. Sources of concentrated stock positions vary.

Has your client…

Had a concentrated position complicating their portfolio's diversification?	Recently sold their business for shares of the acquiring company?	Received shares as an investor or executive stakeholder in the company?	Accumulated significant compensation via stock or options as an employee?	Inherited a large, concentrated position from family-owned shares?

Hedging & Monetization Strategies

Morgan Stanley offers hedging, monetization and income enhancement solutions based on the client's objectives. Our equity risk management strategies are primarily structured as OTC Transactions.

Introduction to Managing Concentrated Stock Positions

Hedging & Monetization Strategies

Capital Preservation
Providing protection against a decline in the stock's value, while maintaining upside appreciation.

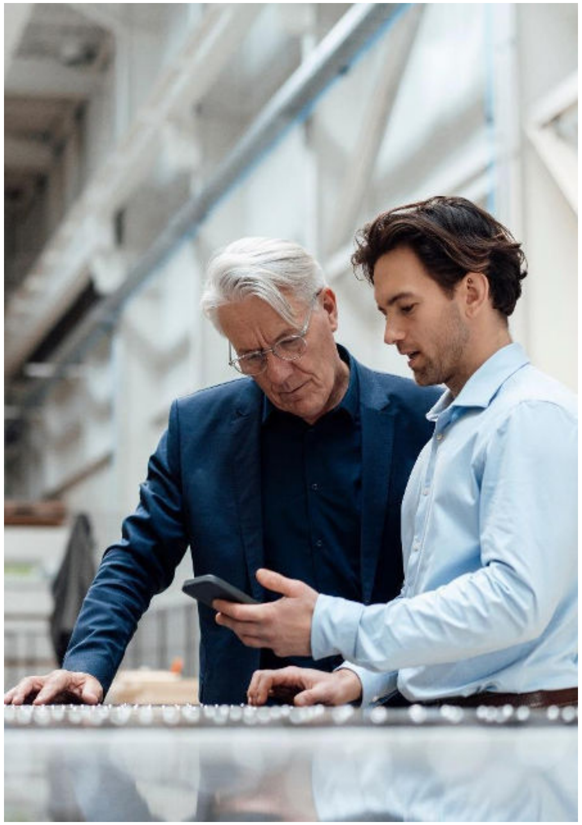
Monetization
Receive the benefits of downside protection, upside appreciation and an upfront cash payment, with no separate loan facility to generate liquidity.

Diversification
With your upfront cash payment, diversify out of the client's single equity position, without selling out of the concentrated position.

Stock Appreciation
Although the client has a max return when implementing this strategy, we actively monitor positive stock moves and provide the ability to reset the Cap higher, allowing further appreciation.

Tax Efficiency
Potential to defer costly capital gains tax, without selling out of the concentrated position.

Variable Prepaid Forwards



Implementinga Variable Prepaid Forward strategyallows an investor to simultaneously hedge against declines and generateimmediate liquidity from an existing equity position by potentiallyforegoing potential upside appreciation beyond a certainlevel and agreeingto deliver cashand/orshares at expiration of the contractif necessary.

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Key Benefits of Utilizing OTC Transactions vs. Listed Options

Whileboth OTC and listed instruments can serveas risk-mitigation tools, OTCinstruments offer increased customization.

OTC OPTIONS

OTC transactions can be tailored to an investor's unique needsand financialgoals

- Termsare **fully customizable**, subject to agreement between the parties
  - Strike Price
  - Flexible Expiry dates
  - Bespoke / illiquid publicly trade stock positions
  - Specific notionalor share amount
  - American or Europeanexpiry
- Private bilateral agreement
- Subject to counterparty risk

LISTED OPTIONS

Listed options provide less tailored solutions for mitigating risk for investors

- Termsare **standardized** per listed market
  - Listed strikes
  - Listed maturity dates
  - One contract for every 100 shares
  - American expiry primarily
- Tradedon exchange
- Backed by Clearing Corp. of the Exchange

Variable Prepaid Forward

How they Work

TRADE DATE

Pledges shares as collateral

Upfront pre-payment **(Schwab / Fidelity Account)**
+ collar (Cap and Floor)

COUNTERPARTY

Schwab / Fidelity

EXPIRATION DATE

Delivery:
Variable number of *shares and/or cash* subject to Cap and Floor

'Reset and Roll':
Client may also have an option to 'reset and roll' any residual dollar amount owed at Expiry forward into the terms of a new strategy.

COUNTERPARTY

MORGAN STANLEY

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Morgan Stanley

NVIDIA Corporation (NVDA)

Indicative Proposal for Hedging & Monetization Strategies

For Illustrative Purposes Only

Structure

Strategy	Variable Prepaid Forward
Underlying Shares	NVDA
Hedge Price ($)	$185.00
Number of Shares	54054
Ordinary Dividend Treatment	Capped at Current Rate
Value of the Underlying Shares [1]	$10,000,000.00

Collar Terms

Tenor (months)	12m	12m	12m
Floor Price (Protection) *(% of Spot Price | $ Price Per Share)*	90.00% | $166.50	80.00% | $148.00	75.00% | $138.75
Ceiling Price (Max Return) [2] *(% of Spot Price | $ Price Per Share)*	120.00% | $222.00	135.00% | $249.75	143.00% | $264.55
Collar Cost / Credit (%)	0.00%	0.00%	0.00%
Collar Cost / Credit ($)	$0.00	$0.00	$0.00
Hedged Shares *(% of Shares | Number of Shares)*	100.00% | 54054 shares	100.00% | 54054 shares	100.00% | 54054 shares

Financing Terms *(if applicable)*

Principal Amount Owed at Maturity [3] *(Repayable in Cash and/or Shares)*	90.00% | $9,000,000.00	80.00% | $8,000,000.00	75.00% | $7,500,000.00
Interest Cost (pre-paid upfront) [4]	$342,000.00	$304,000.00	$285,000.00
Implied Interest Rate Cost (p.a.)	~3.80%	~3.80%	~3.80%
Upfront Cash Proceeds to Client [5]	$8,658,000.00	$7,696,000.00	$7,215,000.00

Structure

Strategy	Variable Prepaid Forward
Underlying Shares	NVDA
Hedge Price ($)	$185.00
Number of Shares	54054
Ordinary Dividend Treatment	Capped at Current Rate
Value of the Underlying Shares [1]	$10,000,000.00

Collar Terms

Tenor (months)	36m	36m	36m
Floor Price (Protection) *(% of Spot Price | $ Price Per Share)*	90.00% | $166.50	85.00% | $157.25	80.00% | $148.00
Ceiling Price (Max Return) [2] *(% of Spot Price | $ Price Per Share)*	145.00% | $268.25	155.00% | $286.75	170.00% | $314.50
Collar Cost / Credit (%)	0.00%	0.00%	0.00%
Collar Cost / Credit ($)	$0.00	$0.00	$0.00
Hedged Shares *(% of Shares | Number of Shares)*	100.00% | 54054 shares	100.00% | 54054 shares	100.00% | 54054 shares

Financing Terms *(if applicable)*

Principal Amount Owed at Maturity [3] *(Repayable in Cash and/or Shares)*	90.00% | $9,000,000.00	85.00% | $8,500,000.00	80.00% | $8,000,000.00
Interest Cost (pre-paid upfront) [4]	$993,600.00	$938,400.00	$883,200.00
Implied Interest Rate Cost (p.a.)	~3.68%	~3.68%	~3.68%
Upfront Cash Proceeds to Client [5]	$8,006,400.00	$7,561,600.00	$7,116,800.00

Upfront Proceed Use Cases

Variable Prepaid Forward

Stock Name / Ticker	NVDA
Duration	36 months
Shares - Free & Clear?	Yes
Share Quantity	54,054
Position Size	$10,00,000.00
Hedging Component	
Spot Price	$185.00
OTC Transaction Type	Costless Collar
Floor Strike (% / $)	90.00% / $166.50
Ceiling Strike (% / $)	145.00% / $268.25
Monetization Component	
Repayment Amount of Principal from Client	$9,000,000.00
Net Costs of Transaction	$993,600.00
Upfront Proceeds to Client	**$8,006,400.00**

****For Illustrative Purposes Only*

Common Utilization of Proceeds

Structured Products – Yield Enhancement

Build a Diversified Portfolio

New Lifestyle Purchase / Expense

Cash Funding a Tax Alpha Solution

- Build L/S Portfolio with Accuracy + Intent
- Minimize Tracking Error
- Maximize Loss Velocity
- Optimal Tax Alignment (Defined Outcome via VPF)

For Example:

Direct Indexing - Custom Core Strategies

Long / Short - Custom Extension Strategy

PARAMETRIC™

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