

Form ADV Wrap Fee Program Brochure

Morgan Stanley Smith Barney LLC

Alternative Investments Advisory Program
Alternative Investments Advisory-Custom Portfolio Program
Alternative Investments Advisory-Discretionary Manager Services Program

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This wrap fee program brochure provides information about the qualifications and business practices of Morgan Stanley Smith Barney LLC (“MSSB”). If you have any questions about the contents of this brochure, please contact us at client.services@mssb.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about MSSB also is available on the SEC’s website at www.adviserinfo.sec.gov. Registration with the SEC does not imply a certain level of skill or training.

Item 2: Material Changes

This section identifies and discusses material changes to the ADV brochure since the version of this brochure dated March 31, 2011. For more details on any particular matter, please see the item in this ADV brochure referred to in the summary below.

Merger of Investment Advisory Programs. MSSB provides investment advisory services through two channels. One channel generally provides the investment advisory programs previously provided by Smith Barney and/or Citigroup Global Markets Inc., and the other channel generally provides the investment advisory programs previously provided by Morgan Stanley & Co. Incorporated. MSSB is in the process of merging the advisory programs currently operated in the Smith Barney and Morgan Stanley channels. In this ADV brochure, and in various client communications, we refer to this process as the “Conversion.” If you are a client in the Smith Barney channel, this may affect your account in various ways. For example, there may be changes to where your account is custodied and to your cash sweep options. We will notify you in advance of any changes to your account resulting from the Conversion. If you are not sure whether your account is in the Smith Barney channel or the Morgan Stanley channel, please contact your Financial Advisor or Private Wealth Advisor. (Item 4)

Changes in Availability of Alternative Investments. MSSB (either itself or through a service provider) does due diligence on and monitors the alternative investments in the programs described in this ADV brochure. We keep a list of approved funds in which qualified clients may invest (“Alternatives Approved List”). If we decide to remove an alternative investment from this list, it undergoes two status changes:

- *Redeem:* The alternative investment is no longer available for investment in the programs but we continue to perform due diligence and charge you the fee in your agreement until we change the status to “Terminate” (or another date we determine).
- *Terminate:* (A) We terminate due diligence, (B) we cease acting as your investment advisor for that alternative investment and you stop paying the fee in your client agreement (but still pay any underlying management fees to the investment manager of the alternative investment), (C) we transfer the alternative investment to a brokerage account, and (D) you are solely responsible for any decision to remain invested in the alternative investment. If you remain invested after the status changes to Terminate, we may continue to provide performance reports and account statements to you for an annual fee of 0.25% of your remaining assets in that alternative investment that were previously in the program. (Item 4.C)

Cash Sweeps. Any uninvested cash, and allocations to cash, in your account are invested in either interest bearing bank deposit accounts (“Deposit Accounts”) or money market funds. If you have a Deposit Account, this may now be held at

one or more of the following banks affiliated with us: (i) Morgan Stanley Bank, N.A., (ii) Morgan Stanley Private Bank, National Association or (iii) Citibank, N.A. Each bank pays us a fee based on your Deposit Account balances (except on retirement plans or Coverdell Education Savings accounts). Your Financial Advisor does not receive a portion of these fees.

If you opened a retirement plan account or Coverdell Education Saving Account in the Smith Barney channel, the Exhibit to this ADV brochure (“Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement”) applies to your account after the Conversion. This Exhibit has information on the money market fund investments available to you, including fees and expenses.

These changes do not affect you if you have set up a custodian other than MSSB or Citigroup Global Markets Inc. for your account. (Item 4.C)

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Item 4: Services, Fees and Compensation

Morgan Stanley Smith Barney LLC (“MSSB”, “we” or “us”) is, among other things, a registered investment adviser, a registered broker-dealer, a registered futures commission merchant, and a member of the New York Stock Exchange. MSSB is one of the largest financial services firms in the country with branch offices in all 50 states and the District of Columbia.

In June 2009, Morgan Stanley (“Morgan Stanley Parent”) and Citigroup Inc. (“Citi”) combined the Global Wealth Management Group of Morgan Stanley & Co. Incorporated (“MS&Co.”) and the Smith Barney and related businesses of Citi affiliates. Under the terms of the agreement, Citi sold 100% of its Smith Barney, Smith Barney Australia and Quilter units for a 49% stake in the joint venture company and an upfront cash payment of \$2.7 billion. Morgan Stanley Parent exchanged 100% of its Global Wealth Management business for a 51% stake in the joint venture company. After year three, Morgan Stanley Parent and Citi will have various purchase and sale rights for the joint venture company, but Citi will continue to own a significant stake in the joint venture company at least through year five. The joint venture owns MSSB.

MSSB’s investment advisory services are provided through two channels. One channel generally provides the investment advisory programs previously provided by Smith Barney and/or Citigroup Global Markets Inc. (“CGM”) (“SB Channel”) and generally provides these programs through the same businesses and retail locations as did Smith Barney and/or CGM. The other channel generally provides the investment advisory programs previously provided by MS&Co. and generally provides these programs through the same businesses and retail locations as did MS&Co. (“MS Channel”).

MSSB offers clients (“you” and “your”) many different advisory programs. Many of MSSB’s alternative investments advisory services are provided by its Alternative Investments Group (“MSSB AI”) business unit. Some advisory programs offered in the SB Channel and MS Channel are very similar to each other and may have different names based on the channel in which they are offered. Other programs may have the same name in both channels but the program details may differ in some respects between the channels. Some programs are available only in one channel. You may obtain brochures for other MSSB investment advisory programs, including those provided by MSSB’s Consulting Group (“CG”) at www.smithbarney.com/ADV or by asking your Financial Advisor or, for Morgan Stanley Private Wealth Management clients, your Private Wealth Advisor. Throughout the rest of this brochure, “Financial Advisor” means either your Financial Advisor or your Private Wealth Advisor, as applicable, unless the context otherwise requires.

MSSB is in the process of merging the SB Channel and MS Channel advisory programs. In addition, we anticipate that in 2012, the SB Channel and MS Channel will cease operating as separate channels, and will begin operating as a single channel

on one platform which will at least initially be substantially similar to the channel and platform on which the MS Channel currently operates. This conversion of the SB Channel and the MS Channel will be referred to as the “Conversion.” Accounts opened or operating on this one platform will be referred to as “Converted Accounts.”

We do not anticipate that this Conversion will have any material impact on MS Channel clients or accounts. We anticipate that the Conversion will occur in three “Cuts” during 2012, each of which will impact the clients and accounts of certain SB Channel branch offices. We anticipate that the Conversion will be complete after the third Cut, and that after the third Cut no accounts will remain on the SB Channel platform. MSSB will notify you if and when your account will be converted (and of any impact that the conversion will have on your account), before any Conversion Cut that impacts you.

A. General Description of Programs and Services

The Morgan Stanley Smith Barney Alternative Investments Group (“MSSB AI”) administers and oversees the following programs that are described below: Alternative Investments Advisory, Alternative Investments (SB Channel Only), Alternative Investments Advisory-Custom Portfolio, and Alternative Investments Advisory-Discretionary Manager Services. This section then discusses various general matters applying to these programs. The guidelines to these programs are subject to change without notice. You should consult with your Financial Advisor for further details.

Alternative Investments Advisory Program

The Alternative Investments Advisory (“AIA”) program provides consulting and administrative services to qualified clients that seek to invest in certain affiliated and unaffiliated alternative investment vehicles (“Alternative Investments”) that have been approved by MSSB.

Alternative Investments include: (1) MSSB-affiliated and unaffiliated single manager alternative investment vehicles; (2) MSSB-affiliated and unaffiliated investment vehicles, such as fund of funds or managed futures funds, that allocate money to other investment funds and/or investment managers or commodity trading advisors who in turn invest in other alternative investment asset classes; and (3) investments in feeder funds sponsored by MSSB to invest in specific underlying investment vehicles managed by affiliated and unaffiliated investment advisers chosen by MSSB through the HedgePremier program (“HedgePremier”).

After receipt of appropriate information from and about you (which may include your investment objectives, risk tolerance, and investment time horizon), MSSB will identify several Alternative Investments deemed suitable for you from the Alternative Investments available on the Alternatives Approved List (see Changes to Available Alternative Investments, below). You may also consider other Alternative Investments on the Alternatives Approved List, subject to eligibility and minimum investment requirements. For each Alternative Investment that

you are considering, you should review the manager's ADV Part 2, where available, for a discussion on their particular method of analysis and investment strategy.

You will sign a client services agreement with MSSB and separate fund documentation for each Alternative Investment in which you decide to invest (each, a "Selected Investment Product"). You will pay a separate fee to the manager of each Selected Investment Product.

The decision to participate in AIA and invest in any Selected Investment Product is made by you and is your responsibility.

If you wish to continue to participate in a Selected Investment Product that has received a status change to "Terminate", (i) MSSB shall no longer provide any recommendation or advice regarding such alternative investment and (ii) your account will become a brokerage account. In HedgePremier, removal of a Selected Investment Product from the Alternatives Approved List may result in the full liquidation of the HedgePremier fund's investment in the Selected Investment Product by HedgePremier's program manager).

Changes in Availability of Alternative Investments.

Alternative Investments offered through AIA, AI, and CP are subject to change in availability by MSSB. MSSB, directly through its Alternative Investments Research group ("AIR") or through an affiliated or unaffiliated service provider selected and approved by MSSB, provides due diligence and monitoring services with respect to the Alternative Investments that are available in AIA, AI and CP. MSSB may or may not, in its sole discretion, create and make available a written report of such review. As part of this process, MSSB will, directly or through an affiliated or unaffiliated service provider, periodically monitor the Alternative Investments for purposes of determining whether they should remain on the list of approved funds in which qualified clients may invest (the "Alternatives Approved List"). From time to time, MSSB may decide to add, temporarily suspend, or remove certain Alternative Investments from the Alternatives Approved List by MSSB. The four statuses are "Approved", "Watch", "Redeem" or "Terminate". If MSSB decides to remove an Alternative Investment from the Alternatives Approved List, the Alternative Investment will receive two status changes - first, to "Redeem" and later, to "Terminate" which will impact the services MSSB provides and the fees you may pay on the Alternative Investment:

- **Redeem:** If an Alternative Investment's status is changed to "Redeem" or a similar designation, the Alternative Investment will no longer be available for investment through MSSB but MSSB, directly or through an affiliated or unaffiliated service provider selected and approved by MSSB, will continue to perform due diligence and charge you the fee set out in your Client Agreement until the status is changed to "Terminate" or until a date as MSSB might otherwise determine in its sole discretion.
- **Terminate:** If an Alternative Investment's status is changed to "Terminate" or a similar designation, (A) MSSB will terminate due diligence coverage of the Alternative Investment, (B) as it relates to that Alternative Investment, MSSB will cease acting as your investment advisor and you

will stop paying the fee set out in your Client Agreement (although you will continue to pay any underlying management fees to the investment manager of the Alternative Investment for as long as you retain the Alternative Investment), (C) the Alternative Investment will no longer be part of the AIA, AI, or CP account and will be transferred to a brokerage account, and (D) you will become solely responsible for any decision to remain invested in the Alternative Investment. To the extent you remain invested in the Alternative Investment after the status change to Terminate, MSSB may continue to provide performance reports and account statements to you and you will pay an annual fee of 0.25% of your remaining assets in that Alternative Investment that were previously in AIA, AI or CP, payable quarterly in advance, which may be waived or reduced at the sole discretion of MSSB, for such non-advisory services. MSSB may also retain a non-advisory, ongoing distribution fee directly from the Alternative Investment or the manager of the Alternative Investment (if available).

In HedgePremier, removal of an Alternative Investment from the Alternatives Approved List may result in the full liquidation of the HedgePremier fund's investment in the Alternative Investment by HedgePremier's program manager.

Prior to investing, you should review the offering materials for such illiquid investments, in particular the terms of any restrictions on the premature termination or liquidation of your Selected Investment Product. Your Financial Advisor may also recommend a change of Alternative Investments if, e.g., your investment objectives or market conditions change or if, for some other reason, another Alternative Investment would be more appropriate for you.

The AIA program is non-discretionary and the decision to participate in AIA and the selection of any Selected Investment Product is made by you and is your responsibility. At any time, you may terminate your investment (subject to the restrictions applicable to the Selected Investment Product) by complying with MSSB's procedures and, if you wish, select a new Alternative Investment for your account so that you continue to receive the services available in the program.

Alternative Investments Program (SB Channel Only)

The Alternative Investments Program ("AI") program is substantially similar to the AIA program described above except that:

- AI is only available through the SB Channel;
- assets that are custodied will be at CGM (AIA clients have custodied assets held at MSSB);
- AI clients receive written Investment Monitors (AIA clients receive Quarterly Performance Reports). See Account Statements and Performance Reviews; and
- if you wish to continue to participate in a Selected Investment Product that has received a status change to "Terminate", you shall continue to pay MSSB the alternative investments consulting fee in recognition of the advice previously provided by MSSB and, where applicable,

for continuing services such as performance measurement and monitoring.

The decision to participate in AI and the selection of any Alternative Investment is made by you and is your responsibility.

Alternative Investments Advisory-Custom Portfolio Program

The Alternative Investments Advisory-Custom Portfolio (“CP”) program offers qualified clients consulting and administrative services from MSSB and access to non-discretionary custom portfolio construction advice from an affiliate of MSSB (the “CP Manager”). MSSB itself does not provide asset management services in CP.

Based on the investment objectives and requirements (including any restrictions) provided by you to MSSB and the CP Manager, the CP Manager will generate an Investment Policy Statement that identifies suitable Alternative Investments from the Alternatives Approved List.

You will sign a client services agreement with MSSB and separate fund documentation for each Selected Investment Product. You will pay a separate fee to the manager of each Selected Investment Product.

You may change a Selected Investment Product for any reason by complying with MSSB’s procedures for changes. The CP Manager may recommend a change of Alternative Investments if, e.g., your investment objectives or market conditions change or if, for some other reason, another Alternative Investment would be more appropriate for you.

See also Changes in Availability of Alternative Investments above under “Alternative Investments Advisory Program”.

The CP program is non-discretionary and the decision to participate in CP and invest in any Alternative Investment is made by you and is your responsibility.

Alternative Investments Advisory-Discretionary Manager Services

The Alternative Investments Advisory-Discretionary Manager Services (“DMS”) program offers qualified clients the discretionary investment management services of an MSSB-affiliated manager in a program where MSSB provides consulting and administrative services. MSSB itself does not provide asset management services in DMS.

DMS is designed to provide ultra high net worth and institutional clients with a customized portfolio of alternative investments specific to their needs with respect to risk/reward, strategy allocation, geographic exposure, concentration, and leverage. Portfolios will be created and managed by an MSSB affiliate (the “DMS Manager”) on a fully discretionary basis (as described below under “Investment Process”). In other words, the DMS Manager, and not you, has the discretion to decide what alternative investments to buy and sell in your account. The DMS Manager will be solely responsible for designing,

monitoring, and rebalancing your portfolio as necessary. You should discuss with your DMS Manager which investment strategy suits your investment goals. The DMS Manager will create your portfolio from a selection of hedge funds and may also include hedge funds purchased via secondary transactions, private equity funds and real estate funds. In DMS, MSSB does not due diligence the alternative investments in which you may invest. However, MSSB will perform due diligence on and periodically monitor the DMS Manager.

In DMS, you enter into one agreement with MSSB for consulting and administrative services and enter into a separate discretionary investment management agreement with the DMS Manager relating to due diligence, performance reporting, and the management of the assets by the DMS Manager. The DMS Manager will use client assets to purchase limited partnership interests in either a Delaware or Cayman limited partnership. The Delaware limited partnership will issue clients a single K-1. Clients will hold share classes in the applicable limited partnership interests that are mapped to the underlying investment funds in which the DMS Manager has chosen to invest each client's assets.

Investment Process. The DMS Manager manages your DMS account based on the investment guidelines that you and the DMS Manager agree to in an investment management agreement (“IMA”). The DMS Manager is primarily responsible for making and implementing investment management decisions for your account within the investment guidelines. The availability of investment strategies and securities and the applicability of investment limitations may vary among clients. You should consult with your DMS Manager for more information on the DMS Manager’s approach to investing, and available investment strategies.

Other

In addition to the specific services described above, from time to time, Financial Advisors, with the approval of MSSB’s management, may provide specialized investment advisory services on either a discretionary or non-discretionary basis to clients.

Account Opening

To enroll in any program described in this brochure, you must enter into the respective program’s client agreement (the “Client Agreement”) with MSSB. For DMS, you will also enter into an investment management agreement with the DMS Manager.

Restrictions

Your ability to impose restrictions on your investments in the programs is limited. For example, you may restrict MSSB from buying specific securities or a category of securities (e.g., tobacco companies). If you restrict a category of securities, MSSB will determine which specific securities fall within the restricted category. In doing so, we may rely on outside sources (e.g. standard industry codes and research provided by independent service providers). Any restrictions you impose on individual securities have no effect on the holdings of certain alternative investments where they operate in accordance with

the investment objectives and strategies described in their offering materials.

In CP and DMS, any restrictions should be included in your investment guidelines. You should contact your DMS Manager to determine what types of restrictions you may place on your account.

Account Statements and Performance Reviews

In AIA and AI, we provide written Investment Monitors (SB Channel) or Quarterly Performance Reports (MS Channel and Converted Accounts) to you every quarter. These reviews have tabular reports and graphical displays showing how your account investments have performed, both on an absolute basis and on a relative basis compared to recognized indices (such as Standard & Poor's indices). You may access these reports through MSSB's online account services site. To enroll your account in the online account service site, SB Channel clients should go to <https://www.smithbarney.com/app-bin/reg/servlets/Registration> and MS Channel clients should go to <https://www.morganstanleyclientserv.com/FreeContent/Enrollments/Identification.aspx> and follow the step-by-step instructions. If, however, you would like to receive these reports by mail, please call 1-888-454-3965.

In CP, MSSB will provide quarterly reports and the CP Manager will provide periodic reports to you describing the performance of the Selected Investment Products based on portfolio holdings information received from managers of the Selected Investment Products or their agents.

In DMS, your account will be reflected on a monthly statement from MSSB. In addition, the DMS Manager will provide monthly valuations for the DMS account as well as the performance for the underlying accounts. You will receive a monthly fact card and quarterly commentary from the DMS Manager which is tailored to your account and the DMS Manager may further customize client statements if requested.

Performance information may be based on a preliminary estimate of an Alternative Investment's performance for the month. The final performance results may be higher or lower than the data reflected in the periodic report provided by MSSB or its affiliate. You are responsible for reviewing performance reports and promptly reporting any discrepancies to MSSB.

Risks

All trading in an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. We and the managers do not guarantee performance, and a manager's past performance with respect to other accounts does not predict your account's future performance. You should consult with your Financial Advisor, CP Manager, or DMS Manager regarding the specific risks associated with the investments in your account.

Risks Relating to Alternative Investments. Alternative investments have different features and risks from other types of investment products. As further described in the offering documents of any particular Alternative Investment, an investment in alternative investments can be highly illiquid, is

speculative and not suitable for all investors. For example, alternative investment products may place substantial limits on liquidity and the redemption rights of investors, including only permitting withdrawals on a limited periodic basis and with a significant period of notice and may impose early withdrawal fees. Investing in alternative investments is intended for experienced and sophisticated investors only who are willing to bear the high economic risks of the investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include: loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; lack of liquidity, in that there may be no secondary market for the fund and none expected to develop; volatility of returns; restrictions on transferring interests in the fund; potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; absence of information regarding valuations and pricing; complex tax structures and delays in tax reporting; less regulation and higher fees than mutual funds; and advisor risk. Alternative investment products may also have higher fees (including multiple layers of fees) compared to other types of investments. Individual funds will have specific risks related to their investment programs that will vary from fund to fund. For more details on these and other features and risks, please carefully read the documentation (including risk disclosures) relating to any Selected Investment Product, as well as your MSSB Client Agreement.

Risks Relating to Money Market Funds. An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there is no assurance that will occur, and it is possible to lose money if the fund value per share falls. Moreover, in some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one month or more. During that time, these funds would not be available to you to support purchases, withdrawals and, if applicable, check writing or ATM debits from your account.

Risks Relating to Differing Classes of Securities. Different classes of securities have different rights as creditor if the issuer files for bankruptcy or reorganization. For example, bondholders' rights generally are more favorable than shareholders' rights in a bankruptcy or reorganization.

For other risks relating to the particular strategy you hold in any Alternative Investment, see the offering materials for your Alternative Investment and, where available, the ADV Part 2 for the manager of the Alternative Investment.

For other risks relating to the particular strategy you hold in your DMS account, see your DMS Manager's ADV Part 2. You can ask your Financial Advisor for a copy.

Tax Considerations

A Financial Advisor may agree with you to implement a client-developed investment strategy that you believe is sensitive to your particular tax situation. Neither we nor any of our affiliates provides tax or legal advice and, therefore, we and they are not be responsible for developing, evaluating or the efficacy of any such tax-sensitive strategy. You need to develop any such strategy in consultation with a qualified tax adviser. Certain tax-sensitive strategies can involve risks. Among others, tax-efficient management services involve an increased risk of loss because your account may not receive the benefit (e.g., realized profit, avoided loss) of securities transactions that would otherwise take place in accordance with the Financial Advisor's investment management decisions for the account. Replacing a manager may result in sales of securities and subject you to additional income tax obligations.

Fees

For our services in the programs, you pay MSSB an asset-based fee (at a maximum annual fee rate of 2%). MSSB will allocate a portion of your fee to your Financial Advisor and, if applicable, to an unaffiliated or affiliated due diligence service provider. In CP, we may pay a part of the fee you pay to us to the CP Manager. In DMS, you pay the DMS Manager a fee pursuant to your separate investment management agreement with the DMS Manager. Each manager of your Selected Investment Product charges you a separate fee for fees associated with your investment in the Selected Investment Product. We do not pay the manager any part of the fee or other compensation you pay to us. You pay MSSB and the manager of the Alternative Investment separately for the services each provides in the programs.

HedgePremier Program Participation Fees. If you make an investment through HedgePremier as a consulting client through AIA or AI, you will also pay an affiliate of MSSB, Morgan Stanley HedgePremier GP, LLC (the "Program Manager"), an ongoing program participation fee (the "Program Participation Fee"), which is distinct from the other fees described in this brochure. As more fully described in the HedgePremier offering materials, the Program Participation Fee is intended to compensate the Program Manager for certain administrative, reporting and other services. The Program Manager will receive 0.25% annually for investments less than \$5,000,000, and 0.15% annually for investments in excess of \$5,000,000. The Program Participation Fee payable to the Program Manager is waived for certain retirement accounts. While you remain in AIA or AI, your Financial Advisor will not receive any portion of the Program Participation Fee.

Fees are Negotiable. Fees for the programs described in this brochure are negotiable based on a number of factors (including the type and size of the account and the range of services we provide). In special circumstances, and with the client's agreement, the fee charged to a client for an account may be more than the maximum annual fee stated in this section.

The fee is payable as described in the Client Agreement. Generally, the initial fee is due in full on the date you invest in the Alternative Investment open your account at MSSB and is based on the market value of the account on that date. The

initial fee payment covers the period from the opening date through (at your election) the last business day of the current quarter or the next full calendar quarter and is prorated accordingly. Thereafter, the fee is paid quarterly in advance based on the account's market value on the last business day of the previous calendar quarter and is due the following business day. The Client Agreement authorizes MSSB to deduct fees when due from the assets contained in the account.

Breakpoints. Fee rates in the programs may be expressed as a fixed rate applying to all assets in the account, or as a schedule of rates applying to different asset levels, or "breakpoints." When the fee is expressed as a schedule of rates corresponding to different breakpoints, discounts, if any, are negotiated separately for each breakpoint. As the value of account assets reaches the various breakpoints, the incremental assets above each threshold are charged the applicable rates. The effective fee rate for the account as a whole is then a weighted average of the scheduled rates, and may change with the account asset level.

Each manager and strategy you hold in AIA, AI and CP are held in a separate account, even if held in the same program.

Accounts Related for Billing Purposes. When two or more investment advisory accounts are related together for billing purposes, you can benefit even more from existing breakpoints. If you have two accounts, the "related" fees on Account #1 are calculated by applying your total assets (i.e. assets in Account #1 + assets in Account #2) to the Account #1 breakpoints. Because this amount is greater than the amount of assets solely in Account #1, you may have a greater proportion of assets subject to lower fee rates, which in turn lowers the average fee rate for Account #1. This average fee rate is then multiplied by the actual amount of assets in Account #1 to determine the dollar fee for Account #1. Likewise, the total assets are applied to the Account #2 breakpoints to determine the average fee rate for Account #2, which is then multiplied by the actual amount of assets in Account #2 to determine the dollar fee for Account #2.

Only certain accounts may be related for billing purposes, based on the law and MSSB's policies and procedures. Even where accounts are eligible to be related under these policies and procedures, they will only be related if this is specifically agreed between you and the Financial Advisor.

B. Comparing Costs

Program fees vary across different programs. You may be able to obtain similar services separately for a lower fee from MSSB or elsewhere. Several factors determine whether it would cost more or less to participate in a program than to purchase the services separately (including the size of your account, the types of investments, whether the investments involve costs in addition to the program fee, and the amount of trading in the account). In addition, you may be able to obtain certain services or gain access to particular securities for a lower fee in one program as opposed to another.

In DMS, the primary service that you are purchasing is the DMS Manager's discretionary management of your portfolio pursuant to certain program guidelines. Cost comparisons are difficult

because that particular service is not offered in other programs. Depending on the level of trading and types of securities purchased or sold in your account, if purchased separately, you may be able to obtain transaction execution at a higher or lower cost at MSSB or elsewhere than the fee in these programs. However, such transactions could not be executed on a discretionary basis in a brokerage account. In addition, MSSB offers other programs where discretionary portfolio management is provided by third party investment managers and the fees in those programs may be higher or lower than the fees in these programs.

You should consider these and other differences when deciding whether to invest in an investment advisory or a brokerage account and, if applicable, which advisory programs best suit your individual needs.

C. Additional Fees

If you open an account in one of the programs described in this brochure, you will pay us an asset-based fee for our services. The program fees do not cover:

- the costs of investment management fees and other expenses charged by Alternative Investments (see below for more details)
- “mark-ups,” “mark-downs,” and dealer spreads (A) that MSSB or its affiliates may receive when acting as principal in certain transactions where permitted by law or (B) that other broker-dealers may receive when acting as principal in certain transactions effected through MSSB and/or its affiliates acting as agent, which is typically the case for dealer market transactions (e.g., fixed income and over-the-counter equity)
- brokerage commissions or other charges resulting from transactions not effected through MSSB or its affiliates
- MSSB account establishment or maintenance fees for its Individual Retirement Accounts (“IRA”) and Versatile Investment Plans (“VIP”), which are described in the respective IRA and VIP account and fee documentation (which may change from time to time)
- HedgePremier Program Participation Fees (as described above in Item 4.A. under “HedgePremier Program Participation Fees”)
- servicing fees applicable upon termination of the Client Agreement
- account closing/transfer costs
- processing fees or
- certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law).

Alternative Investments in Advisory Programs

Investing in Alternative Investments is more expensive than certain other investment options offered in other advisory programs. In addition to our fee, you pay the fees and expenses

of the Alternative Investments in which your account is invested. Such fees and expenses are charged directly to the pool of assets in which the Alternative Investments invest. These fees and expenses are an additional cost to you and are not included in the fee amount in your account statements. Each Alternative Investment describes their fees in its offering materials. Current and future expenses may differ from those stated in the offering materials.

You do not pay any sales charges for purchases of Alternative Investments in programs described in this brochure. However some Alternative Investments may charge, and not waive, a redemption fee on certain transaction activity in accordance with their offering materials.

In addition to the program fee paid by you, MSSB and its affiliates may receive payments from managers of Alternative Investments or their affiliates with respect to Alternative Investments held in the account. Thus, we have a conflict to recommend Alternative Investments over other securities where we do not receive such payments.

Certain Alternative Investments are sponsored or managed by affiliates of MSSB. Since the affiliated sponsor or manager receives additional investment management fees and other fees, MSSB has a conflict to recommend MSSB-affiliated Alternative Investments.

Cash Sweeps

Generally, some portion of your account will be held in cash. If CGM (SB Channel accounts) or MSSB (MS Channel accounts and Converted Accounts) acts as custodian for your account, it will effect “sweep” transactions of uninvested cash and allocations to cash, if any, in your account into:

- interest-bearing bank deposit accounts (“Deposit Accounts”) established under the Bank Deposit Program (“BDP”) or
- money market mutual funds (each, a “Money Market Fund” and, together with BDP Deposit Accounts, “Sweep Investments”). These money market funds are managed by Morgan Stanley Investment Advisors Inc. or another MSSB affiliate except for:
 - *SB Channel retirement accounts and Coverdell Education Savings:* The “sweep” money market funds are managed by an unaffiliated manager.
 - *SB Channel taxable accounts open as of the date of this brochure (March 28, 2011) and containing a Western money market fund:* You will retain your “sweep” money market fund managed by Western Asset Management Company for a transitional period. On April 1, 2011, you will also have a sweep money market fund managed by a MSSB affiliate. During April, your Western sweep fund will close and your only sweep fund will then be that managed by the MSSB affiliate. For more details on this transition, please see the separate communication we have already sent you.

If you do not select a Sweep Investment when you open your account, your Sweep Investment will be BDP if you are eligible

(MS Channel accounts and Converted Accounts) or selected by your Financial Advisor (SB Channel accounts).

In the SB Channel, retirement accounts cannot use BDP as their Sweep Investment.

Clients with accounts that are both (a) MS Channel accounts or Converted Accounts and (b) with retirement plan accounts or Coverdell Education Savings Accounts should read the Exhibit to this brochure ("Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement").

The custodian will effect sweep transactions only to the extent permitted by law and if you meet the Sweep Investment's eligibility criteria.

Bank Deposit Program. Through the Bank Deposit Program, Deposit Accounts are established for you at one or more of the following banks (individually and collectively, the "Sweep Banks"): (i) Morgan Stanley Bank, N.A. (ii) Morgan Stanley Private Bank, National Association or (iii) Citibank, N.A. The Sweep Banks are affiliated with MSSB. The Sweep Banks pay interest on the Deposit Accounts established under the BDP. Your deposits at the Sweep Banks will be insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits, in accordance with FDIC rules, and subject to aggregation of all the accounts (including, without limitation, certificates of deposit) that you hold at the Sweep Banks in the same capacity. Bank deposits held through the BDP are not covered by SIPC or excess coverage.

If BDP is your Sweep Investment, you authorize us, as your agent, to establish the Deposit Accounts for you, and to make deposits into, withdrawals from and transfers among the Deposit Accounts.

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Financial Advisor or through MSSB's web site at www.morganstanleyindividual.com/accountoptions/activeassets/investmentfeatures. You acknowledge and understand that we may amend the list of Sweep Banks at any time with or without notice to you. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure Statement carefully.

Please note the following: (i) you are responsible to monitor the total amount of deposits you have at each Sweep Bank in order to determine the extent of FDIC insurance coverage available to you; and (ii) MSSB is not responsible for any insured or uninsured portion of your deposits at any of the Sweep Banks.

If BDP is your Sweep Investment, you should be aware that, each Sweep Bank will pay MSSB a fee equal to the percentage of the average daily deposit balances in your Deposit Account at the Sweep Banks. Your Financial Advisor will not receive a portion of these fees or credits. In addition, MSSB will not receive cash compensation or credits in connection with the BDP for assets in the Deposit Accounts for retirement plans or

Coverdell Education Savings accounts. Also, the affiliated Sweep Banks have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees MSSB earns on affiliated Money Market Funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the sweep fund, rather than an eligible Money Market Fund.

Unless otherwise specifically disclosed to you in writing, such as in connection with the Bank Deposit Program noted above, investments and services offered through MSSB are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by, the Sweep Banks, and involve investment risks, including possible loss of the principal invested.

Money Market Funds. We may, in our sole discretion, offer Money Market Funds as Sweep Investments. The Money Market Funds may or may not be affiliated with MSSB. You understand that purchases and redemptions of Money Market Fund shares may be effected only through MSSB and that you may not directly access the Money Market Fund.

If a Money Market Fund is your Sweep Investment, you authorize us, as your agent, to make investments in, and redemptions from, the Money Market Fund.

Each of these Money Market Funds is a separate investment with different investment objectives. Their fees, expenses, minimum investment requirements, dividend policies and procedures may vary. Before you invest in any Money Market Fund, read its prospectus carefully. Money Market Fund shares are neither insured nor protected by the FDIC. Investment in any money market fund is a purchase of securities issued by the money market fund, not a bank deposit.

Certain of the Money Market Funds described above have minimum investment requirements. In addition, MSSB may require a minimum initial investment to activate some or all of the Sweep Investments. If you do not meet the minimum initial investment, uninvested cash and allocations to cash in eligible accounts will be invested in the BDP.

In addition, certain of the Money Market Funds have minimum balance requirements. For eligible accounts, if your investment falls below the minimum balance requirement, MSSB may redeem and reinvest all of your shares in the BDP. Once your sweep option has been changed, we will not automatically change it back to your previous Sweep Investment even if you meet the minimum initial investment and/or balance requirements. You must contact your Financial Advisor to do so. However, if a pattern develops of falling below the minimum balance requirement, we may preclude you from investing in that Sweep Investment in the future.

We may offer other money market funds as a non-sweep investment choice. You may purchase shares in these money market funds by giving specific orders for each purchase to your Financial Advisor. However, uninvested cash in your account will not be swept into these money market funds.

If account cash balances are invested in Money Market Funds sponsored or managed by MSSB affiliates, we receive and retain fund fees up to 0.18% from those Money Market Funds or those money market funds' affiliates. Therefore, MSSB has a conflict of interest in recommending that a portion of your

account be invested in money market funds. For retirement accounts with cash balances invested in money market funds sponsored or managed by MSSB affiliates, certain fees received and retained by such MSSB affiliates will be credited to the account or offset against the advisory program fee. Please see the attached Exhibit “Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement” for more details.

The above provisions may not apply if you are not a U.S. resident. If you are not a U.S. resident, please contact your Financial Advisor to determine whether the BDP or a Money Market Fund will be your default Sweep Investment.

D. Compensation to Financial Advisors

If you invest in one of the programs described in this brochure, a portion of the fees payable to us in connection with your account is allocated on an ongoing basis to your Financial Advisor. The amount allocated to your Financial Advisor in connection with accounts opened in programs described in this brochure may be more than if you participated in other MSSB investment advisory programs, or if you paid separately for investment advice, brokerage and other services. The compensation we pay Financial Advisors with respect to program accounts is typically higher than the compensation we pay Financial Advisors with respect to transaction-based brokerage accounts. Your Financial Advisor may therefore have a financial incentive to recommend one of the programs in this brochure instead of other MSSB programs or services.

If you invest in one of the programs described in this brochure, the Financial Advisor may charge a fee less than the maximum fee stated above. The amount of the fee you pay is a factor we use in calculating the compensation we pay your Financial Advisor. Therefore, Financial Advisors have a financial incentive not to reduce fees. If your fee rate is below a certain threshold, we give your Financial Advisor credit for less than the total amount of your fee in calculating his or her compensation. Therefore, Financial Advisors also have a financial incentive not to reduce fees below that threshold.

Item 5: Account Requirements and Types of Clients

AIA and AI do not have minimum account size requirements. The CP and DMS programs have a minimum account size of \$25,000,000, subject to exception approval by MSSB and, in the case of DMS, the DMS Manager.

Minimum account sizes apply for each Alternative Investment in a program and generally range from \$10,000 to \$5,000,000 or higher.

MSSB’s clients include individuals, trusts, banking or thrift institutions, pension and profit sharing plans, plan participants, other pooled investment vehicles (e.g., hedge funds), charitable organizations, corporations, other businesses, state or municipal government entities, investment clubs and other entities.

To invest in alternative investment vehicles in the programs described, you must meet certain eligibility and investment minimums imposed by MSSB. You also may be subject to additional investor criteria, such as “accredited investor” under Regulation D of the Securities Act of 1933, as amended, and “qualified purchaser” under the Investment Company Act of 1940, as amended.

Item 6: Portfolio Manager Selection and Evaluation

A. Selection and Review of Portfolio Managers and Funds for the Programs

In AIA, AI and CP, we offer a wide range of investment managers that we have selected and approved. Item 4.A above describes the basis on which we recommend particular managers to particular clients. This Item 6.A describes more generally how we approve, downgrade and terminate managers from AIA, AI and CP. Managers may only participate in the AIA, AI and CP programs if they are on MSSB’s Alternatives Approved List (described below). Managers often offer more than one Alternative Investment and we may include only some of those Alternative Investments (or only certain share classes of such Alternative Investment) in our programs, may carry different Alternative Investments (or share classes) in different programs, and assign different statuses to different Alternative Investments.

As well as requiring Alternative Investments to be on the Alternatives Approved List or Approved List, we look at other factors in determining which Alternative Investments we offer in these programs, including program needs (such as whether we have a sufficient number of managers available in an asset class), and client demand.

In DMS, the DMS Manager (and not MSSB) is responsible for the selection of managers for your portfolio as well as the review, approval, and monitoring of such Alternative Investments. Although MSSB has no involvement in the selection or review of the Alternative Investments, MSSB periodically conducts a formal review of the DMS Manager (generally, every 12-18 months) to confirm the suitability of the DMS Manager as a discretionary investment manager to clients of MSSB.

Selection of Alternative Investments

In AIA, AI and CP, investment and business risk due diligence on Alternative Investments is provided by MSSB through (i) our Alternative Investments Research group (“AIR”), (ii) an affiliate of MSSB that may provide due diligence and monitoring services, or (iii) an independent consulting firm retained by MSSB that is also in the business of evaluating the capabilities of alternative investments. Any firm providing due diligence will generally follow a methodology similar to that used by AIR (described below) in reviewing such alternative investments.

On an ongoing basis, AIR analysts conduct both quantitative and qualitative research on potential candidates. Their research includes, among other things, a review of relevant documents,

calls and meetings with the investment team, and an analysis of investment performance. Generally, although the process may be modified for a particular manager or Alternative Investment as AIR may deem appropriate, AIR also conducts on-site visits, review a separate business risk due diligence questionnaire and examine areas such as portfolio pricing, contingency planning, background checks on key principals and other items. Their research covers the Alternative Investment in question, not the investments in which that Alternative Investment may in turn invest. For example, for a fund of funds, AIR's research process is applied to the fund of funds, and not to each individual fund in which the fund of funds invests.

If a new Alternative Investment is viewed as an appropriate candidate by AIR or the firm providing due diligence, the vehicle is presented to an MSSB alternative investment product review committee ("AIPRC"). The AIPRC consists of senior MSSB representatives who are mandated to approve proposed candidates and reconfirm existing vehicles on a periodic basis. Once a new Alternative Investment is approved by the AIPRC, and all required due diligence materials are verified, it receives an "Approved" status, is placed on the Alternatives Approved List, a list of alternative investment vehicles in which qualified clients may invest, and is available for allocations to qualified clients on a placement and/or advisory basis. Certain Alternatives Investments on the Alternatives Approved List are available to qualified clients in the AIA, AI and CP programs.

Ongoing monitoring of managers and investment vehicles on the Alternatives Approved List is provided by AIR or the firm which provided the original due diligence. In addition to manager-specific monitoring, the reviewer monitors overall market conditions in their specific strategies of expertise.

MSSB removes Alternative Investments from the AIA, AI and CP programs if AIR, or the due diligence service provider responsible for coverage of the Alternative Investment downgrades the Alternative Investment to "Terminate". We may terminate managers from these programs for other reasons (e.g., the manager has a low level of assets under management in the program, the manager has limited capacity for further investment, or the manager is not complying with our policies and procedures). AIR's head of research can remove an alternative investment vehicle from the Alternatives Approved List without consulting the AIPRC, but the AIPRC will be notified of all such actions and have the right to call for an assessment of the decision. For more information on status changes and impacts on your account, see Item 4.A.

Watch Policy

MSSB has a "Watch" policy for Alternative Investments on the Approved List. Watch status indicates that, in reviewing an Alternative Investment, AIR has identified specific areas related to the Alternative Investment, the manager of the Alternative Investment, or the markets in general that (i) merit further evaluation by AIR and (ii) may, but are not certain to, result in the removal of the Alternative Investment from the "Approved List". Putting an Alternative Investment on Watch does not signify an actual change in AIR opinion nor is it a guarantee that AIR will remove the Alternative Investment. The duration of a Watch status depends on how long AIR needs to evaluate the

reason for the status change, which may include, among things, an evaluation of the markets, the Alternative Investment, and the manager of the Alternative Investment.

Calculating Portfolio Managers' Performance

We do not calculate composite manager performance in the programs. Neither MSSB nor a third party reviews performance information to determine or verify its accuracy or its compliance with presentation standards and therefore performance information may not be calculated on a uniform or consistent basis. Generally, the manager of the Alternative Investment determines the standards used to calculate performance data.

Valuations. Valuations used for account statement purposes and billing purposes, and for any performance reports, are obtained from the manager of each Selected Investment Product. These valuations (and any corresponding benchmark index values) may be estimates, may be several weeks old as of the dates MS&Co. produces your account statements/reports and calculates your fees and, in the case of index values, may be based on information from multiple sources. The final performance figures for the applicable period may be higher or lower, and MSSB is under no obligation to provide notice of, or compensation to, clients for any difference in performance.

If you invest in a fund of funds, your account documents may use the HFRI Fund of Funds Composite Index ("FoF Index") as a benchmark. The FoF Index consists of over 800 domestic and offshore funds of hedge funds that have at least \$50 million under management or have been actively trading for at least 12 months. It is equally weighted on a fund by fund basis and fund assets are reported in USD on a net of fees basis. It is updated three times a month and the current month's and the prior three months' values are subject to change. MSSB is not obligated to notify you of any such changes. The FoF Index values are likely to be more up-to-date than the data for the Selected Investment Products for which it is the benchmark. You cannot invest in the FoF Index. For more information see <https://www.hedgefundresearch.com>.

B. Conflicts of Interest

Conflicts of Interest – Affiliate Acting as Portfolio Manager

In AIA, AI and CP, an affiliate of MSSB may act as the manager for one or more your Alternative Investments. Where this occurs, we or our affiliates earn more money in your account from your investments in such investments than from other investment options. MSSB and the Financial Advisor are also likely to earn more compensation if you invest in a program described in this brochure than if you open a brokerage account to buy individual securities. Also, in DMS, the DMS Manager is an affiliate of MSSB.

These relationships create a conflict of interest for us or our affiliates as there is a financial incentive to recommend the investments. We address this conflict of interest by disclosing it to you and by requiring Financial Advisors' supervisors to review your account at account-opening to ensure that it is

suitable for you in light of matters such as your investment objectives and financial circumstances.

Item 6.A. describes the selection and review process for all managers of Alternative Investments that are available through these programs.

Other Conflicts of Interest

MSSB has various other conflicts of interests relating to the programs described in this brochure.

Advisory vs. Brokerage Accounts. MSSB and your Financial Advisor are likely to earn more compensation if you invest in a program described in this brochure than if you open a brokerage account to buy individual securities (although, in a brokerage account, you may not receive all the benefits of the programs described in the brochure). Financial Advisors and MSSB therefore have a financial incentive to recommend one of these programs described in this brochure. We address this conflict of interest by disclosing it to you and by requiring Financial Advisors' supervisors to review your account at account-opening to ensure that it is suitable for you in light of matters such as your investment objectives and financial circumstances.

MSSB as Placement Agent. MSSB also acts a placement agent for certain Alternative Investments whereby such investments are available through MSSB on a non-advisory basis. When an Alternative Investment is purchased on a placement basis, different terms and conditions, including different fee arrangements, may apply. For example, when a client invests through HedgePremier on a placement basis, they do not pay an ongoing advisory fee, however, they pay an upfront placement fee and the Program Manager receives a higher Program Participation Fee which is shared with MSSB and its Financial Advisors. A Client investing on an advisory basis may pay higher fees, in the aggregate, than if such investment had been made on a placement basis.

Payments from Managers of Alternative Investments. Managers of Alternative Investments offered in the programs described in this brochure may agree to pay us the types of payments described above in Item 4.C. We have a conflict of interest in offering Alternative Investments because we or our affiliates earn more money in your account from your investments in Alternative Investments than from other investment options. However, in cases where we receive a portion of the management fee paid by you to a manager of an Alternative Investment and we charge a program fee under the programs in this brochure, we credit such fee to your account. Also, we do not share this money with your Financial Advisor (i.e. the compensation we pay to your Financial Advisor is not affected by the payments we receive from the Alternative Investments). Therefore, your Financial Advisor does not have a resulting incentive to buy Alternative Investments in your account, or to buy certain Alternative Investments rather than other Alternative Investments in any of the programs in this brochure.

Payments from Managers. Managers participating in MSSB-sponsored internal training and education conferences and meetings may make payments to, or for the benefit of, MSSB or

its Financial Advisors to offset the expenses incurred for these events. On request, your Financial Advisor can provide you with a schedule of these payments.

While we provide sponsorship opportunities to all managers of separately managed accounts and mutual funds in our investment advisory programs, certain managers (referred to as "Global Partners") dedicate significant financial and staffing resources to these activities. Global Partners may receive additional opportunities to sponsor MSSB events and promote their products to Financial Advisors and clients. This could lead Financial Advisors to focus on products managed by our Global Partners when recommending products to clients instead of those from other managers that do not commit similar resources to educational, marketing and other promotional efforts. MSSB selects managers to be Global Partners based on quantitative and qualitative criteria.

Managers may also sponsor their own educational conferences and pay expenses of Financial Advisors attending these events. MSSB's policies require that the training or educational portion of these conferences comprises substantially all of the event. Managers may sponsor educational meetings or seminars in which clients as well as Financial Advisors are invited to participate.

Managers are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors, subject to a limit of \$1,000 per employee per year. MSSB's non-cash compensation policies set conditions for each of these types of payments, and do not permit any gifts or entertainment conditioned on achieving a sales target. On request, your Financial Advisor can provide you with an annual estimate of the aggregate value of gifts or entertainment that managers pay or provide to MSSB or particular Financial Advisors.

We address conflicts of interest by ensuring that any payments described in this "Payments to Managers" section do not relate to any particular transactions or investment made by MSSB clients with managers. Managers participating in programs described in this brochure are not required to make any of these types of payments. The payments described in this section comply with FINRA rules relating to such activities.

Affiliate Acting as Portfolio Manager. Where permitted by law, and except for plan accounts, an affiliate of MSSB may have been selected to act as the manager for one or more your investments. Where this occurs, we or our affiliates earn more money than from other investment options. MSSB and the Financial Advisor are also likely to earn more compensation if you invest in a program described in this brochure than if you open a brokerage account to buy individual securities.

Different Advice. MSSB, MS&Co., Citi and their affiliates may give different advice, take different action, receive more or less compensation, or hold or deal in different securities for any other party, client or account (including their own accounts or those of their affiliates) from the advice given, actions taken, compensation received or securities held or dealt for your account.

Trading or Issuing Securities in, or Linked to Securities in, Client Accounts. MSSB, MS&Co., CGM and their affiliates may provide bids and offers, and may act as principal market maker, in respect of the same securities held in client accounts. MSSB, the investment managers in its programs, MS&Co., CGM and their affiliates and employees may hold a position (long or short) in the same securities held in client accounts. MS&Co., MSSB, CGM and/or their affiliates are regular issuers of traded financial instruments linked to securities that may be purchased in client accounts. From time to time, the trading of MSSB, a manager, or their affiliates – both for their proprietary account and for client accounts – may be detrimental to securities held by a client and thus create a conflict of interest. We address this conflict by disclosing it to you.

Services Provided to Other Clients. MSSB, MS&Co., CGM, investment managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that MSSB may recommend for purchase or sale by clients or are otherwise held in client accounts, and investment management firms in the programs described in this brochure. MS&Co., CGM, MSSB, investment managers and their affiliates receive compensation and fees in connection with these services. MSSB believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account. Accordingly, it is likely that securities in an account will include some of the securities of companies for which MS&Co., CGM, MSSB, investment managers and their affiliates or an affiliate performs investment banking or other services.

Restrictions on Securities Transactions. There may be periods during which MSSB or investment managers are not permitted to initiate or recommend certain types of transactions in the securities of issuers for which MS&Co., Citi or one of their affiliates is performing broker-dealer or investment banking services or have confidential or material non-public information. Furthermore, in certain investment advisory programs, MSSB may be compelled to forgo trading in, or providing advice regarding, Morgan Stanley Parent or Citi securities, and in certain related securities. These restrictions may adversely impact your account performance.

MSSB, the managers and their affiliates may also develop analyses and/or evaluations of securities sold in a program described in this brochure, as well as buy and sell interests in securities on behalf of its proprietary or client accounts. These analyses, evaluations and purchase and sale activities are proprietary and confidential, and MSSB will not disclose them to clients. MSSB may not be able to act, in respect of clients' account, on any such information, analyses or evaluations.

MSSB, investment managers and their affiliates are not obligated to effect any transaction that MSSB or a manager or any of their affiliates believe would violate federal or state law, or the regulations of any regulatory or self-regulatory body.

Research Reports. MS&Co. and CGM do business with companies covered by their respective research groups.

Furthermore, MS&Co., CGM and their affiliates may hold a trading position (long or short) in, and client accounts may hold, the securities of companies subject to such research or the securities of companies that are affiliates of such companies. Therefore, MS&Co. and CGM have a conflict of interest that could affect the objectivity of their research reports.

Certain Trading Systems. If MSSB directly or indirectly effects client trades through exchanges, electronic communication networks or other alternative trading systems ("Trading Systems") in which its affiliates have an ownership interest, these affiliates may receive an indirect economic benefit based on their ownership interest. Currently, affiliates of MSSB (including affiliates of MS&Co. and Citi) own over 5% of the voting securities of certain Trading Systems, including BATS Trading, Inc., operator of BATS Electronic Trading Network (commonly known as "BATS"); the entities that own and control the Block Interest Discovery System (commonly known as "BIDS"); LavaFlow Inc.; EBX Group, LLC; ELX Futures Holdings, LLC; ELX Futures, LP; TheMuniCenter; Automated Trading Desk Financial Services LLC; Automated Trading Desk Brokerage Services LLC; Boston Options Exchange, LLC; FX Alliance Inc.; and National Securities Exchange. Other Trading Systems on which MSSB may execute trades for client accounts include Archipelago; eSpeed; Instinet; NYFIX; Track ECN; BondDesk; ValuBond; NYSE Euronext; TradeWeb; MarketAxe; NYPPEX; HedgeBay; and Secondary Market. The Trading Systems on which MSSB trades for Client accounts and in which affiliates of MSSB own interests may change from time to time. You may contact your Financial Advisor for an up-to-date list of Trading Systems in which affiliates of MSSB own interests and on which MSSB and/or MS&Co. trades for client accounts.

Certain Trading Systems offer cash credits for orders that provide liquidity to their books and charge explicit fees for orders that extract liquidity from their books. From time to time, the amount of credits that MSSB, MS&Co. and/or CGM receives from one or more Trading System may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

Certain Trading Systems through which MSSB, MS&Co. and/or CGM may directly or indirectly effect client trades execute transactions on a "blind" basis, so that a party to a transaction does not know the identity of the counterparty to the transaction. It is possible that an order for a client account that is executed through such a Trading System could be automatically matched with a counterparty that is (i) another investment advisory or brokerage client of MSSB or one of its affiliates or (ii) MSSB or one of its affiliates acting for its own proprietary accounts.

Transaction-Related Agreements with MS&Co., Citi and Affiliates. In connection with creating the joint venture, certain agreements were entered into between or involving some or all of MSSB, MS&Co, Citi, CGM and their affiliates, including the following:

- **Clearing.** An agreement providing that, subject to best execution, MS&Co. and CGM (or their applicable affiliates) will act as fully-disclosed clearing brokers for MSSB, which will act as an introducing broker. MSSB may have a conflict

of interest in introducing client trades to MS&Co. and CGM. (As of the date of this brochure, MSSB is the clearing broker for most of the MS Channel's investment advisory programs and for Converted Accounts. MS&Co. is the clearing broker for some MS Channel clients, typically those with accounts administered by the MS Channel's Private Wealth Management division. CGM is the clearing broker for SB Channel clients.)

- *Order Flow.* An agreement that, subject to best execution, MSSB will transmit an agreed percentage of client orders for the purchase and sale of securities to MS&Co., Citi, CGM and their affiliates. MSSB has a conflict of interest in transmitting client orders to these entities.
- *Distribution.* An agreement that, in return for the payment of certain fees and expenses, MSSB will market and promote certain securities and other products underwritten, distributed or sponsored by MS&Co., Citi or their affiliates. MSSB has a conflict of interest in offering, recommending or purchasing any such security or other product to or for its investment advisory clients.
- *Investment Research.* An agreement that MS&Co. and CGM (or their applicable affiliates) will supply investment research prepared by their respective research groups to MSSB for its use. It is possible that MS&Co.'s research group, on the one hand, and Citi's research group, on the other hand, may reach different conclusions, and may make different recommendations, with respect to the same issuer or investment manager. This may, among other things, result in different investment decisions or recommendations regarding the same issuer or investment manager being made for or given to MSSB investment advisory clients.

Item 7: Client Information Provided to Portfolio Managers

When you open a AIA, AI or CP account, we may send various information about you and your account to the manager of your Selected Investment Product (including your name, whether or not your account is taxable, state/country of residence, your Investor Profile and restrictions). If you are an individual, we may provide further information about you and your financial situation (which may include your contact details, social security number, date of birth, citizenship, occupation, net worth and income).

When you open a CP or DMS account, we send various information about you and your account to the CP Manager or DMS Manager (including your name, whether or not your account is taxable, state/country of residence, your Investor Profile and restrictions). If you are an individual, we provide further information about you and your financial situation (which may include your contact details, social security number, date of birth, citizenship, occupation, net worth and income). We may provide updated information to the manager when needed for the manager to manage your account (e.g. changes in restrictions on the securities, or categories of securities, that your account can hold).

In CP and DMS, the CP Manager and DMS Manager, respectively, also requests information directly from you, and any updates it requires from time to time. Your Financial Advisor may help you forward information in response to requests.

Item 8: Client Contact with Portfolio Managers

We do not restrict you from contacting and consulting with the managers of your Selected Investment Products.

In CP, we do not restrict you from contacting and consulting with your CP Manager.

In the DMS program, you have a direct contractual relationship with the DMS Manager, and so may contact the DMS Manager to determine the consultation you may have with the DMS Manager.

Item 9: Additional Information

Disciplinary Information

This section contains information on certain legal and disciplinary events.

In this section, "MSDW" means Morgan Stanley DW Inc., a predecessor broker-dealer of MS&Co. and registered investment adviser that was merged into MS&Co. in April 2007. MS&Co. and CGM are predecessor broker-dealer firms of MSSB.

- The National Association of Securities Dealers Inc. ("NASD") alleged that between October, 1999 and December, 2002, MSDW violated the non-cash compensation provisions of the NASD Conduct Rules (under which MSDW was prohibited from providing its Financial Advisors with non-cash compensation for sales of mutual funds and variable annuities that were not based on total sales and equal weighting). MSDW offered rewards to its Financial Advisors for sales of affiliated mutual funds in general, or particular affiliated mutual funds or certain variable annuities. By a Letter of Acceptance, Waiver and Consent ("LAWC") dated September 15, 2003, MSDW agreed to (1) fines totaling \$2.25 million; (2) update its compliance systems and procedures; and (3) retain an independent consultant to review and make recommendations on MSDW's supervisory and compliance procedures.
- On April 28, 2003, the SEC filed a complaint alleging that MS&Co. violated certain NASD and New York Stock Exchange ("NYSE") Conduct Rules (collectively, the "Conduct Rules") by creating conflicts of interest for its research analysts with respect to investment banking activity, failing to adequately manage such conflicts, failing to ensure, in offerings where MS&Co. was the lead underwriter, that payments made to other broker-dealers for publishing research reports were disclosed by the issuers in the offering documents and the other broker-dealers in their research reports, and failing to supervise properly its research

analysts, including with respect to the ratings, price targets and content of the reports of senior research analysts. Without admitting or denying the substantive allegations in the complaint, on October 31, 2003, MS&Co. consented to the entry of a final judgment that enjoined MS&Co. from violating the Conduct Rules and required it to make payments of \$50 million for past conduct and allocate \$75 million to fund independent research. In addition, MS&Co. agreed to a number of structural changes to the operations of its equity research and investment banking operations. Concurrently, MS&Co. also entered into a settlement with the NYSE, the NASD and the Attorney General of the State of New York with respect to the same conduct specified in the complaint. MS&Co. is also in the process of finalizing settlements with the other state and territorial securities administrators.

- In 2003, Solomon Smith Barney (“SSB”), now known as CGM, settled civil and regulatory actions brought by the SEC, the NYSE, the NASD, the Attorney General of the State of New York (“NYAG”), and state securities regulators, which alleged violations of certain federal and state securities laws and regulations, and certain NASD and NYSE rules, by SSB arising out of certain business practices concerning sell-side research during 1999 to 2001, and initial public offerings (“IPOs”) during 1996 to 2000. The actions alleged, among other things, that SSB published fraudulent research reports, permitted inappropriate influence by investment bankers over research analysts, and failed to adequately supervise the employees who engaged in those practices. It was also alleged that SSB engaged in improper “spinning” of shares to executives of investment banking clients and failed to maintain policies and procedures reasonably designed to prevent the potential misuse of material non-public information in certain circumstances. Without admitting or denying the findings, SSB consented to (1) censures by NASD and the NYSE; (2) cease and desist orders in state proceedings prohibiting SSB from violating certain state laws and regulations; (3) a judgment prohibiting SSB from violating certain laws and regulations; (4) certain operational reforms; (5) participating in a voluntary initiative pursuant to which SSB will no longer make allocations of securities in hot IPOs to accounts of executive officers or directors of U.S. public companies; and (6) a payment of \$400 million.
- The SEC alleged disclosure violations in connection with marketing arrangements between MSDW and certain mutual fund complexes in connection with the offer and sale of class B shares in certain Morgan Stanley proprietary mutual funds in the amount of \$100,000 or more in a single transaction. The SEC also alleged that receipt of directed brokerage commissions as payment for such marketing arrangements contravened NASD Rule 2830(k). On November 17, 2003, without admitting or denying the findings, MSDW consented to orders including a censure; a cease and desist; and an undertaking to distribute, for the benefit of certain customers, \$50 million dollars, consisting of disgorgement plus prejudgment interest in the amount of \$25 million and civil penalty of \$25 million. MSDW also made certain other undertakings including (1) preparing and distributing certain disclosures and a mutual fund bill of rights; (2) permitting

certain class B shares to be converted to class A shares; and (3) retaining an independent consultant to review, among other things, the completeness of the disclosures and conformity with other aspects of the order.

- In 2004, the NYSE brought an administrative action alleging that MS&Co. and MSDW (1) failed to ensure delivery of prospectuses in connection with certain sales of securities; (2) failed to timely and accurately file daily program trade reports; (3) erroneously executed certain sell orders on a minus tick for securities in which MS&Co. held a short position; (4) failed to timely submit RE-3 in connection with certain matters; (5) hired certain individuals subject to statutory disqualification and failed to file fingerprint cards for certain non-registered employees; (6) failed to comply with requirements concerning certain market-on-close and limit-on-close orders; and (7) failed to reasonably supervise certain activities. MS&Co. and MSDW resolved the action on January 7, 2005, by consenting, without admitting or denying guilt, to a censure, a fine of \$13 million, and a rescission offer to those clients who should have received a prospectus during the period from June 2003 to September 2004.
- In January 2005, the SEC filed a complaint in federal court alleging that, during 1999 and 2000, MS&Co. violated Regulation M by attempting to induce certain customers who received allocations of IPOs to place purchase orders for additional shares in the aftermarket. The SEC did not allege fraud or impact on the market. On January 25, 2005, MS&Co. agreed to the entry of a judgment enjoining MS&Co. from future violations and the payment of a \$40 million civil penalty. The settlement terms received court approval on February 4, 2005.
- In March 2005, the SEC entered an administrative and cease and desist order against CGM for two disclosure failures by CGM in offering and selling mutual fund shares. Firstly, CGM received from mutual fund advisers and distributors revenue sharing payments, in exchange for which CGM granted mutual funds preferential sales treatment. The order found that CGM did not adequately disclose its revenue sharing program to its clients, in violation of the Securities Act of 1933 (“Securities Act”) and Rule 10b-10 under the Securities Exchange Act of 1934 (“Exchange Act”). Secondly, on sales of Class B mutual fund shares in amounts aggregating \$50,000 or more, the order found that CGM, in violation of the Securities Act, failed to disclose adequately at the point of sale that such shares were subject to higher annual fees. These fees could have a negative impact on client investment returns, depending on the amount invested and the intended holding period. The SEC order censured CGM, required CGM to cease and desist from future violations of the applicable provisions, and required CGM to pay a \$20 million penalty.
- In March 2005, the NASD censured and fined CGM with respect to CGM’s offer and sale of Class B and Class C mutual fund shares during 2002 and the first six months of 2003. The NASD found that CGM either had not adequately disclosed at the point of sale, or had not adequately considered in connection with its recommendations to clients

to purchase Class B and Class C shares, the differences in share classes and that an equal investment in Class A shares generally would have been more advantageous for the clients. The NASD also found that CGM's supervisory and compliance policies and procedures regarding Class B and Class C shares had not been reasonably designed to ensure that SB Financial Consultants consistently provided adequate disclosure of, or consideration to, the benefits of the various mutual fund share classes as they applied to individual clients. The NASD censured CGM and required CGM to pay a \$6.25 million fine.

- On May 31, 2005, the SEC issued an order in connection with the settlement of an administrative proceeding against Smith Barney Fund Management LLC ("SBFM") and CGM relating to the appointment of an affiliated transfer agent for the Smith Barney family of mutual funds ("Smith Barney Funds"). SBFM was an affiliate of CGM during the applicable period.

The SEC order found that SBFM and CGM willfully violated section 206(1) of the Investment Advisers Act of 1940 ("Advisers Act"). Specifically, the order found that SBFM and CGM knowingly or recklessly failed to disclose to the Boards of the Smith Barney Funds in 1999 when proposing a new transfer agent arrangement with an affiliated transfer agent that: First Data Investors Services Group ("First Data"), the Smith Barney Funds' then-existing transfer agent, had offered to continue as transfer agent and do the same work for substantially less money than before; and Citigroup Asset Management ("CAM"), the Citi business unit that includes the Smith Barney Funds' investment manager and other investment advisory companies, had entered into a side letter with First Data under which CAM agreed to recommend the appointment of First Data as sub-transfer agent to the affiliated transfer agent in exchange, among other things, for a guarantee by First Data of specified amounts of asset management and investment banking fees to CAM and CGM. The order also found that SBFM and CGM willfully violated section 206(2) of the Advisers Act by virtue of the omissions discussed above and other misrepresentations and omissions in the materials provided to the Smith Barney Funds' Boards, including the failure to make clear that the affiliated transfer agent would earn a high profit for performing limited functions while First Data continued to perform almost all of the transfer agent functions, and the suggestion that the proposed arrangement was in the Smith Barney Funds' best interests and that no viable alternatives existed. SBFM and CGM did not admit or deny any wrongdoing or liability. The settlement did not establish wrongdoing or liability for purposes of any other proceeding.

The SEC censured SBFM and CGM and ordered them to cease and desist from violations of sections 206(1) and 206(2) of the Advisers Act. The order required Citi to pay \$208.1 million, including \$109 million in disgorgement of profits, \$19.1 million in interest, and a civil money penalty of \$80 million. Approximately \$24.4 million has already been paid to the Smith Barney Funds, primarily through fee waivers. The remaining \$183.7 million, including the penalty, has been paid to the U.S. Treasury.

The order required SBFM to recommend a new transfer agent contract to the Smith Barney Fund Boards within 180 days of the entry of the order; if a Citi affiliate submitted a proposal to serve as transfer agent or sub-transfer agent, an independent monitor must be engaged at the expense of SBFM and CGM to oversee a competitive bidding process. Under the order, Citi also must comply with an amended version of a vendor policy that Citi instituted in August 2004. That policy, as amended, among other things, requires that when requested by a Smith Barney Fund Board, CAM will retain at its own expense an independent consulting expert to advise and assist the Board on the selection of certain service providers affiliated with Citi.

- In a LAWC dated August 1, 2005, the NASD found that MSDW failed to establish and maintain a supervisory system, including written procedures, reasonably designed to review and monitor MSDW's fee-based brokerage business, between January 2001 and December 2003. Without admitting or denying the allegations, MSDW consented to the described sanctions and findings and was censured and fined \$1.5 million, and agreed to the payment of restitution to 3,549 customers in the total amount of approximately \$4.7 million, plus interest.
- The SEC alleged that MS&Co. violated the Exchange Act by inadvertently failing to timely produce emails to the SEC staff pursuant to subpoenas in the SEC's investigation into MS&Co.'s practices in allocating shares of stock in IPOs and an investigation into conflicts of interest between MS&Co.'s research and investment banking practices. Without admitting or denying the allegations, MS&Co. consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. MS&Co. agreed to make payments aggregating \$15 million, which amount was reduced by \$5 million contemporaneously paid by MS&Co. to the NASD and the NYSE in related proceedings. MS&Co. also agreed to notify the SEC, the NASD and the NYSE that it has adopted and implemented policies and procedures reasonably designed to ensure compliance with the Exchange Act. MS&Co. also agreed to provide annual training to its employees responsible for preserving or producing electronic communications and agreed to retain an independent consultant to review and comment on the implementation and effectiveness of the policies, procedures and training.
- On June 27, 2006, the SEC announced the initiation and concurrent settlement of administrative cease and desist proceedings against MS&Co. and MSDW for failing to maintain and enforce adequate written policies and procedures to prevent the misuse of material nonpublic information. The SEC found that from 1997 through 2006, MS&Co. and MSDW violated the Exchange Act and the Advisers Act by failing to (1) conduct any surveillance of a number of accounts and securities; (2) provide adequate guidance to MS&Co.'s and MSDW's personnel charged with conducting surveillance; and (3) have adequate controls in place with respect to certain aspects of "Watch List" maintenance. The SEC's findings covered different areas from the 1997 through 2006 time period. MS&Co. and

MSDW were ordered to pay a civil money penalty of \$10 million and agreed to enhance their policies and procedures.

- On August 21, 2006, MS&Co. and MSDW entered into a LAW C relating various finds that, at various times between July 1999 and 2005, MS&Co. violated a number of NASD and SEC rules. The violations related to areas including trade reporting through the Nasdaq Market Center (formerly Automated Confirmation Transaction Service (ACT)), Trade Reporting and Compliance Engine (TRACE) and Order Audit Trail System (OATS); market making activities; trading practices; short sales; and large options positions reports. The NASD also found that, at various times during December 2002 and May 2005, MSDW violated NASD rules and Municipal Securities Rulemaking Board (“MSRB”) rules related to areas including trade reporting through TRACE, short sales, and OATS. The NASD further found that, in certain cases, MS&Co. and MSDW violated NASD Rule 3010 because their supervisory systems did not provide supervision reasonably designed to achieve compliance with securities laws, regulations and/or rules.

Without admitting or denying the findings, MS&Co. and MSDW consented to the LAW C. In the LAW C, MS&Co. and MSDW were censured, required to pay a monetary fine of \$2.9 million and agreed to make restitution to the parties involved in certain transactions, plus interest, from the date of the violative conduct until the date of the LAW C. MS&Co. and MSDW also consented to (1) revise their written supervisory procedures; and (2) provide a report that described the corrective action that they completed during the year preceding the LAW C to address regulatory issues and violations addressed in the LAW C, and the ongoing corrective action that they were in the process of completing.

- On May 9, 2007, the SEC issued an Order (“May 2007 Order”) settling an administrative action with MS&Co. In this matter, the SEC found that MS&Co. violated its duty of best execution under the Exchange Act. In particular, the SEC found that, during the period of October 24, 2001 through December 8, 2004, MS&Co.’s proprietary market-making system failed to provide best execution to certain retail OTC orders. In December 2004, MS&Co. removed the computer code in the proprietary market-making system that caused the best execution violations. MS&Co. consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to pay disgorgement of approximately \$5.9 million plus prejudgment interest on that amount, and to pay a civil penalty of \$1.5 million. MS&Co. also consented to retain an Independent Compliance Consultant to review its policies and procedures in connection with its market-making system’s order handling procedures and its controls relating to changes to those procedures, and to develop a better plan of distribution.
- On July 13, 2007, the NYSE issued a Hearing Board Decision in connection with the settlement of an enforcement proceeding brought in conjunction with the New Jersey Bureau of Securities against CGM. The decision held that CGM failed to (1) adequately supervise certain branch offices and Financial Advisors who engaged in deceptive

mutual fund market timing on behalf of certain clients from January 2000 through September 2003 (in both proprietary and non-proprietary funds); (2) prevent the Financial Advisors from engaging in this conduct; and (3) make and keep adequate books and records. Without admitting or denying the findings, CGM agreed to (a) a censure; (b) establishing a \$35 million distribution fund for disgorgement payments; (c) a penalty of \$10 million (half to be paid to the NYSE and half to be paid to the distribution fund); (d) a penalty of \$5 million to be paid to the State of New Jersey; and (e) appointing a consultant to develop a plan to pay CGM’s clients affected by the market timing.

- On September 27, 2007, MS&Co. entered into a LAW C with the Financial Industry Regulatory Authority (“FINRA”). FINRA found that, from October 2001 through March 2005, MSDW provided inaccurate information to arbitration claimants and regulators regarding the existence of pre-September 11, 2001 emails, failed to provide such emails in response to discovery requests and regulatory inquiries, failed adequately to preserve books and records, and failed to establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests. FINRA also found that MSDW failed to provide arbitration claimants with updates to a supervisory manual in discovery from late 1999 through the end of 2005. MS&Co. agreed, without admitting or denying these findings, to establish a \$9.5 million fund for the benefit of potentially affected arbitration claimants. In addition, MS&Co. was censured and agreed to pay a \$3 million regulatory fine and to retain an independent consultant to review its procedures for complying with discovery requirements in arbitration proceedings relating to its retail brokerage operations.
- On October 10, 2007, MS&Co. became the subject of an Order Instituting Administrative and Cease-And-Desist Proceedings (“October 2007 Order”) by the SEC. The October 2007 Order found that, from 2000 until 2005, MS&Co. and MSDW failed to provide to their retail customers accurate and complete written trade confirmations for certain fixed income securities in violation of the Exchange Act and MSRB rules. In addition, MS&Co. was ordered to cease and desist from committing or causing any future violations, and was required to pay a \$7.5 million penalty and to retain an independent consultant to review MS&Co.’s applicable policies and procedures. MS&Co. consented to the issuance of the October 2007 Order without admitting or denying the SEC’s findings.
- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist Proceedings (“December 2007 Order”) by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or amended after the close of trading to be priced at that day’s closing net asset value. The December 2007 Order also found that, from 2000

through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC's findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.

- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the New York Stock Exchange, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.
- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department ("Illinois") (on behalf of a task force of the North American Securities Administrators Association ("NASAA")) with respect to the sale of auction rate securities ("ARS"). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.
- On November 13, 2008, in connection with the settlement of a civil action arising out of an investigation by the SEC into CGM's underwriting, marketing and sale of ARS, CGM, without admitting or denying the allegations of the SEC's complaint, except as to those relating to personal and subject matter jurisdiction, which were admitted, consented to the entry in the civil action of a Judgment As To Defendant Citigroup Global Markets Inc. ("November 2008 Judgment"). Thereafter, on December 11, 2008, the SEC filed its civil action in the federal district court for the Southern District of New York ("Court"). The November 2008 Judgment, which was entered on December 23, 2008 (i) permanently enjoined CGM from directly or indirectly violating section 15(c) of the Exchange Act; (ii) provides

that, on later motion of the SEC, the Court is to determine whether it is appropriate to order that CGM pay a civil penalty pursuant to section 21(d)(3) of the Exchange Act, and if so, the amount of the civil penalty; and (iii) ordered that CGM's Consent be incorporated into the November 2008 Judgment and that CGM comply with all of the undertakings and agreements in the Consent, which include an offer to buy back at par certain ARS from certain customers. The SEC's complaint alleged that (1) CGM misled tens of thousands of its customers regarding the fundamental nature of and risks associated with ARS that CGM underwrote, marketed and sold; (2) through its financial advisers, sales personnel and marketing materials, CGM misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments; (3) as a result, numerous CGM customers invested in ARS funds they needed to have available on a short-term basis; (4) in mid-February 2008, CGM decided to stop supporting the auctions; and (5) as a result of the failed auctions, tens of thousands of CGM customers held approximately \$45 billion of illiquid ARS, instead of the liquid short-term investments CGM had represented ARS to be. CGM reached substantially similar settlements with the NYAG and the Texas State Securities Board ("TSSB"), although those settlements were administrative in nature and neither involved the filing of a civil action in state court. The settlements with the NYAG and the TSSB differed somewhat from the settlement with the SEC in that the state settlements (a) made findings that CGM failed to preserve certain recordings of telephone calls involving the ARS trading desk; and (b) required CGM to refund certain underwriting fees to certain municipal issuers. In addition, as part of the settlement with New York, CGM paid a civil penalty of \$50 million. CGM also agreed in principle to pay to states other than New York with which it enters into formal settlements a total of \$50 million. CGM paid \$3.59 million of this \$50 million to Texas as part of the settlement with that state. CGM expects it will reach settlements with the remaining states.

- On March 25, 2009, MS&Co. entered into a LAW with FINRA. FINRA found that, from 1998 through 2003, MSDW failed to reasonably supervise the activities of two Financial Advisors in one of its branches. FINRA found that these Financial Advisors solicited brokerage and investment advisory business from retirees and potential retirees of certain large companies by promoting unrealistic investment returns and failing to disclose material information. FINRA also held that MS&Co. failed to ensure that the securities and accounts recommended for the retirees were properly reviewed for appropriate risk disclosure, suitability and other concerns. MS&Co. consented, without admitting or denying the findings, to a censure, a fine of \$3 million, and restitution of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.

MSSB's Form ADV Part 1 contains further information about its disciplinary history, and is available on request from your Financial Advisor.

Other Financial Industry Activities and Affiliations

Morgan Stanley Parent indirectly owns 51% of MSSB. Morgan Stanley Parent is a financial holding company under the Bank Holding Company Act of 1956. Citi indirectly owns 49% of MSSB. Both Morgan Stanley Parent and Citi are corporations whose shares are publicly held and traded on the New York Stock Exchange.

Activities of Morgan Stanley Parent and Citi. Morgan Stanley Parent and Citi are both global firms engaging, through their various subsidiaries, in a wide range of financial services including:

- securities underwriting, distribution, trading, merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities
- merchant banking and other principal investment activities
- brokerage and research services
- asset management
- trading of foreign exchange, commodities and structured financial products and
- global custody, securities clearance services, and securities lending.

Broker-Dealer, Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser Registration Status. As well as being a registered investment advisor, MSSB is registered as a broker-dealer and a futures commission merchant. MSSB has a related person that is a commodity pool operator (Ceres Managed Futures LLC). For a full listing of affiliated investment advisers, please see the ADV Part I.

Restrictions on Executing Trades. As MSSB is affiliated with MS&Co., Citi and their affiliates, the following restrictions apply when executing client trades:

- MSSB, MS&Co. and Citi generally do not act as principal in executing trades for MSSB investment advisory clients (except to the extent permitted by a program and the law).
- Regulatory restrictions may limit your ability to purchase, hold or sell equity and debt issued by Morgan Stanley Parent, Citi and their affiliates in some investment advisory programs.
- Certain regulatory requirements may limit MSSB's ability to execute transactions through alternative execution services (e.g., electronic communication networks and crossing networks) owned by MSSB, MS&Co., Citi or their affiliates.

These restrictions may adversely impact client account performance.

Related Investment Advisors and Other Service Providers. MSSB has related persons that are the investment advisers to mutual funds in various investment advisory programs (including Morgan Stanley Investment Management Inc., Morgan Stanley Investment Advisors Inc. and Morgan Stanley Investment Management Limited). If you invest your assets in an affiliated mutual fund or alternative investment, MSSB and its affiliates earn more money than if you invest in an unaffiliated mutual fund or alternative investment. Generally,

for ERISA or other retirement accounts, MSSB rebates or offsets fees so that MSSB complies with IRS and Department of Labor rules and regulations.

Morgan Stanley Investment Advisors Inc., its wholly owned subsidiary Morgan Stanley Services Company Inc., and Morgan Stanley Investment Management Inc. serve in various advisory, management, and administrative capacities to open-end and closed-end investment companies and other portfolios (some of which are listed on the NYSE).

Morgan Stanley Distributors Inc. serves as distributor for these open-end investment companies, and has entered into selected dealer agreements with MSSB and affiliates. Morgan Stanley Distributors Inc. also may enter into selected dealer agreements with other dealers. Under these agreements, MSSB and affiliates, and other selected dealers, are compensated for sale of fund shares to clients on a brokerage basis, and for shareholder servicing (including pursuant to plans of distribution adopted by the investment companies pursuant to Rule 12b-1 under the Investment Company Act of 1940).

Morgan Stanley Trust FSB, an affiliate of MSSB, serves as transfer agent and dividend disbursing agent for investment companies advised by Morgan Stanley Investment Advisors Inc. and other affiliated investment advisers and may receive annual per shareholder account fees from or with respect to them and certain nonaffiliated investment companies.

Related persons of MSSB act as general partner, administrative agent or managing member in a number of funds in which clients may be solicited in a brokerage or advisory capacity to invest. These include funds focused on private equity investing, investments in leveraged buyouts, venture capital opportunities, research and development ventures, real estate, managed futures, hedge funds, funds of hedge funds and other businesses.

See Item 4.C above for a description of cash sweep investments managed or held by related persons of MSSB.

See Item 6.B above for a description of various conflicts of interest.

Code of Ethics

The MSSB US Investment Advisory Code of Ethics ("Code") applies to MSSB's employees, supervisors, officers and directors engaged in offering or providing investment advisory products and/or services (collectively, the "Employees"). In essence, the Code prohibits Employees from engaging in securities transactions or activities that involve a material conflict of interest, possible diversion of a corporate opportunity, or the appearance of impropriety. Employees must always place the interests of MSSB's clients above their own and must never use knowledge of client transactions acquired in the course of their work to their own advantage. Supervisors are required to use reasonable supervision to detect and prevent any violations of the Code by the individuals, branches and departments that they supervise.

The Code generally operates to protect against conflicts of interest either by subjecting Employee activities to specified limitations (including pre-approval requirements) or by prohibiting certain activities. Key provisions of the Code include:

- An Employee who wishes to conduct business activity outside of his or her employment with MSSB, regardless of whether that Employee receives compensation for this activity, must first obtain written authorization from his or her supervisor. (Outside activities include serving as an officer or director of a business organization or non-profit entity, and accepting compensation from any person or organization other than MSSB.)
- Employees are generally prohibited from giving or receiving gifts or gratuities greater than \$100 per recipient per calendar year to or from persons or organizations with which MSSB has a current or potential business relationship, clients, or persons connected with another financial institution, a securities or commodities exchange, the media, or a government or quasi-governmental entity.
- Employees cannot enter into a lending arrangement with a client (unless they receive prior written approval from their supervisor and MSSB's Compliance Department).
- MSSB maintains a "Restricted List" of issuers for which it may have material non-public information or other conflicts of interest. Employees cannot, for themselves or their clients, trade in securities of issuers on the "Restricted List" (unless they receive prior written approval from the Compliance Department).
- Certain Employees, because of their potential access to non-public information, must obtain their supervisors' prior written approval before executing certain securities transactions for their personal securities accounts. All Employees must also follow special procedures for investing in private securities transactions. However, in the programs described in this brochure, Financial Advisors may trade their own (and family) accounts at the same time as they execute client trades if they aggregate these trades with client trades. They may thereby acquire, and compete for, positions or interests in the same securities as their clients which may affect the security's price, which constitutes a conflict of interest. While Financial Advisors are required to execute transactions in a manner that is fair and equitable to their clients over time, client accounts may at times be indirectly negatively impacted when Financial Advisors also trade for their own accounts. We address this conflict by disclosing it to you. Please ask your Financial Advisor if you would like more information on the Financial Advisor's practices in this respect.

You may obtain a copy of the Code of Ethics from your Financial Advisor.

Reviewing Accounts

At account opening, your Financial Advisor must ensure that, and the Financial Advisor's Branch Manager confirms that, the account and the investment style are suitable investments for you.

Your Financial Advisor is then responsible for reviewing your account on an ongoing basis. Your Financial Advisor may recommend changes to your portfolio at any time according to market conditions. Your Financial Advisor will ask you at least annually if your investment objectives have changed. If your objectives change, your Financial Advisor will modify your portfolio to be suitable for your needs.

See Item 4.A above for a discussion of account statements, Investment Monitors (SB Channel) and Quarterly Performance Reports (MS Channel).

Client Referrals and Other Compensation

See "Payments from Managers of Alternative Investments" and "Payments from Managers" in Item 6.B above.

Financial Information

MSSB is not required to include a balance sheet in this brochure because MSSB does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

MSSB does not have any financial conditions that are reasonably likely to impair its ability to meet its contractual commitments to clients.

MSSB and its predecessors have not been the subject of a bankruptcy petition during the past 10 years.

**Exhibit: Affiliated Money Market Funds Fee Disclosure Statement
and Float Disclosure Statement**
(APPLIES ONLY TO MS CHANNEL AND CONVERTED RETIREMENT PLAN ACCOUNTS AND CESAs)

Sweep Vehicles in Retirement Accounts and CESAs

Since the dates below (“Effective Dates”), the following “Retirement Plan Accounts” (IRAs, EBT, RPM and VIP accounts) and Coverdell Education Savings Accounts (“CESAs”) have generally been effecting temporary sweep transactions of new uninvested cash balances into Deposit Accounts established under the Bank Deposit Program:

- September 17, 2007 for “IRAs” (e.g., Traditional, Roth, Rollover, SEP, SAR-SEP, SIMPLE), and
- May 19, 2008 for the remaining Retirement Plan Accounts (i.e., EBT, RPM and VIP accounts) and CESAs.

Before the Effective Dates, MSSB effected such sweep transactions using the Morgan Stanley money market funds listed in the table below as follows:

- IRAs or CESAs in advisory programs swept into the Morgan Stanley Liquid Asset Fund Inc. (“ILAF”) and
- all other Retirement Plan Accounts in advisory programs swept into one or a number of different proprietary mutual funds (which could have included ILAF) depending on the type of account and the advisory program.

As of the Effective Dates, any existing balances in these Morgan Stanley money market funds remained in the funds, pending use for account charges and other purposes. Therefore, these accounts could still maintain cash balances in these funds.

Now, as an alternative to the Deposit Account, Retirement Plan Accounts and CESAs can choose to sweep into ILAF or the Morgan Stanley U.S. Government Money Market Trust (“SGMT”).

For Retirement Plan Accounts that swept into affiliated money market funds before the Effective Dates and continue to hold cash amounts in these funds or that now select one of these funds:

- any fee designated in the table below as “Advisory Fee” received by an MSSB affiliate is offset against the advisory program fees and
- any fees designated in the table as “Distribution and Service Fees” received by MSSB or its affiliates is credited to the account.

Accordingly, changes in these fees over time did not affect the fees paid by Retirement Plan Accounts.

Interest Earned on Float

If MSSB is the custodian of your account, MSSB may retain as compensation, for providing services, the account’s proportionate share of any interest earned on cash balances held by MSSB (or an affiliate) with respect to assets awaiting investment including:

- new deposits to the account (including interest and dividends) and
- uninvested assets held by the account caused by an instruction to the custodian to buy and sell securities (which may, after the period described below, be automatically swept into a sweep vehicle).

This interest is generally at the prevailing Federal Funds interest rate.

Generally, with respect to such assets awaiting investment:

- when the custodian receives the assets on a day on which the NYSE is open (“Business Day”) and before the NYSE closes, the custodian earns interest through the end of the following Business Day and
- when the custodian receives the assets on a Business Day but after the NYSE closes, or on a day which is not a Business Day, the custodian earns interest through the end of the second following Business Day.

MSSB as an ERISA fiduciary

If MSSB is a fiduciary (as defined under ERISA or the Internal Revenue Code) with respect to the Retirement Plan Account, the table below describes the fees and expenses charged to assets invested in shares of the money market funds in which the account invests (expressed as a percentage of each fund’s average daily net assets for the stated fiscal year). Note that:

- The rate of Advisory Fee and Distribution and Service Fees (including 12b-1 fees) (whether in basis points or dollars) may not be increased without first obtaining shareholder approval.
- Expenses designated as “Other Expenses” include all expenses not otherwise disclosed in the table that were deducted from each fund’s assets or charged to all shareholder accounts in the stated fiscal year (and may change from year to year).

These fees and expenses may be paid to MSSB and its affiliates for services performed. The aggregate amount of these fees is stated in the tables below. The amounts of expenses deducted from a fund's assets are shown in each fund's statement of operations in its annual report.

Morgan Stanley Investment Management (and/or its affiliates) may, from time to time, waive part of its advisory fee or assume or reimburse some of a fund's operating expenses. (This may be for a limited duration.) Such actions are noted in the fund's prospectus and/or statement of additional information. The table below shows the Total Annual Fund Operating Expenses (before management fee waivers and/or expense reimbursements) and the Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements.

MSSB believes that investing in shares of the funds for sweep purposes may be appropriate for Retirement Plans because using professionally managed money market funds allows you to access cash on an immediate basis, while providing a rate of return on your cash positions pending investment. As is typical of such arrangements, we use only affiliated money funds for this purpose.

MSSB also believes that investing a Retirement Plan's assets in the Deposit Accounts may also be appropriate. Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which has been provided to you with your account opening materials.

The fund expense information below is the most recent information available to us as of March 30, 2012, and is subject to change. Please refer to the funds' current prospectuses, statements of additional information and annual reports for more information.

Fund	Advisory Fee	Distribution and Service Fees	Other Expenses	Total Annual Fund Operating Expenses	Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements
Active Assets Money Trust	0.29%	0.10%	0.08%	0.47%	0.26%
Active Assets Government Securities Trust	0.45%	0.10%	0.13%	0.68%	0.18%
Active Assets Institutional Government Securities Trust	0.10%	None	0.08%	0.18%	0.17%
Active Assets Institutional Money Trust	0.10%	None	0.08%	0.18%	N/A
Morgan Stanley Liquid Asset Fund Inc.	0.27%	0.10%	0.21%	0.58%	0.25%
Morgan Stanley U.S. Government Money Market Trust	0.44%	0.10%	0.16%	0.70%	0.21%