

Form ADV Wrap Fee Program Brochure Morgan Stanley Smith Barney LLC

Fiduciary Asset Management 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.

**MorganStanley
SmithBarney**

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. (Item 4)

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.

MSSB is in the process of merging the SB Channel and the MS Channel. We anticipate that in 2012 the SB Channel and the 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.” Fiduciary Asset Management accounts opened or operating on this one platform will be referred to as “Converted 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 open on the SB platform. MSSB will notify you if and when your account will be converted (and of any impact the Conversion will have on your account), prior to any Conversion Cut that impacts you.

The Fiduciary Asset Management program is currently provided through the SB Channel only and until the

Conversion is complete, client’s assets will be custodied at CGM. Following Conversion, Converted Accounts will be custodied at MS.

To determine whether your account is an SB Channel account or a Converted Account, please contact your Financial Advisor.

MSSB offers clients (“you” and “your”) many different advisory programs. Many of MSSB’s advisory programs are provided by its Consulting Group (“CG”) business unit. FAM is provided through CG. Some advisory programs offered in the SB Channel and MS Channel are very similar to one another and may have different names based on the channel in which they are offered. Some programs are available only in one channel. MSSB is in the process of merging the SB Channel and the MS Channel advisory programs. Until the programs merge, client assets will be custodied at either CGM (for the SB Channel) or MSSB (for the MS Channel).

A. General Description of Programs Fiduciary Asset Management (“FAM”)

FAM is generally for institutional and high net worth clients. In FAM, a client appoints MSSB as the discretionary investment manager, relative to the selection of unaffiliated mutual funds, exchange traded funds, hedge funds/alternative investment funds or investment management firms (“subadvisors” or “managers”) to manage the client’s account (collectively “Investment Products”). In addition to the discretionary investment management, MSSB will also provide custodial, trade execution and related services for a single asset based fee. FAM is a discretionary program in which MSSB retains discretion as to the selection of and allocation among unaffiliated managers and Investment Products. FAM is designed to manage the overall investment process, including investment policy decisions, asset and investment style allocation decisions, manager selection and review, and comprehensive monitoring of the client’s portfolio.

In FAM, MSSB will assume responsibility for the implementation of all investment strategies through the selection-approval and on-going monitoring of the Investment Products. MSSB assumes full discretion over asset allocation decisions as well as decisions to terminate any Investment Product. MSSB also provides the client with on-going financial management services such as investment performance reporting, administration, trade execution and custody. Based on a client’s long-term strategic policy allocation parameters and other investment constraints, MSSB will look for opportunities in asset classes or investment styles with above average expected rates of return while managing overall portfolio risk in accordance with the client’s investment policies. As a “manager of managers”, MSSB will assume full responsibility for the operations the client’s investment program.

In order to assess the appropriateness of the assets in the client's current portfolio, MSSB will conduct a review of the investment policy, asset allocation and fund assets following these key steps:

- **Investment Policy Statement** – MSSB will assist the client in the preparation of an investment policy statement ("IPS") in order to evaluate and articulate the client's risk tolerance and investment objectives. In doing so, MSSB will assist the client in identifying its needs for liquidity, income, growth of income, growth of principal and preservation of capital. The IPS will assist the client in selecting and developing an appropriate investment strategy and will assist MSSB in executing such strategies.
- **Current Portfolio Analysis** – MSSB will complete a thorough evaluation of a client's current investment program, including investment structure, individual components of each fund, fee structures, manager selection process, possible conflicts of interest, peer universe comparisons and on-going evaluation procedures. The analysis will culminate in a business evaluation of all contracts, custodial documents and performance monitors.
- **Asset Allocation Analysis** - MSSB will complete an analysis of the asset allocation and the basis for asset allocation decisions. The analysis will assist the client in understanding the modeling process and will lead to an estimate as to the client's needs for updates and the frequency with which such updates will be provided. This is a key component in MSSB's risk management evaluation process.

Graystone Consulting

In certain instances, MSSB will provide discretionary investment advisory services using the FAM platform through MSSB's Graystone Consulting group. Graystone Consulting provides investment consulting to institutional and high net worth individuals. In the Graystone Discretionary Services program, qualified Graystone Consulting teams are responsible for the discretionary selection and rebalancing of clients' investment options utilizing the resources of the FAM program. Details of the Graystone Consulting program in general can be found in the Graystone Consulting ADV brochure, which will be made available to all Graystone Consulting clients whose assets are managed by MSSB on the FAM platform.

Account Opening

To enroll in any program described in this brochure, you must enter into the program client agreement ("Client Agreement").

Restrictions

The Client may impose reasonable restrictions on account investments. For example, you may restrict MSSB or the

managers from buying specific securities, a category of securities (e.g., tobacco companies) or Fund shares. If you restrict a category of securities, we or the manager will determine which specific securities fall within the restricted category. In doing so, we or the manager may rely on research provided by independent service providers. Any restrictions you impose on individual securities have no effect on Fund holdings since Funds operate in accordance with the investment objectives and strategies described in their prospectuses.

Trade Confirmations, Account Statements and Performance Reviews

CGM (for SB Channel clients) or MSSB (for MS Channel clients) may serve as the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication where available. You may also receive mutual fund prospectuses, where appropriate. Services may also be provided to clients who engage third-party custodians.

We provide performance monitoring to clients on a case-by-case basis in a format and with a frequency as requested by the client.

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. Investment performance of any kind is not guaranteed, and MSSB's or a MSSB Financial Advisor's past performance with respect to other accounts does not predict future performance with respect to any particular account. In addition, certain investment strategies that MSSB Financial Advisors may use in the programs have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, and Funds. You should consult with your Financial Advisor regarding the specific risks associated with the investments in your account.

Risk Relating to ETFs. There may be a lack of liquidity in certain ETFs, which can lead to a large difference between the bid-ask prices (increasing the cost to you when you buy or sell the ETF). A lack of liquidity also may cause an ETF to trade at a large premium or discount to its net asset value. Additionally, an ETF may suspend issuing new shares and this may result in an adverse difference between the ETF's publicly available share price and the actual value of its underlying investment holdings. At times when underlying holdings are traded less frequently, or not at all, an ETF's returns also may diverge from the benchmark it is designed to track.

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.

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.

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 alternative investment, such an investment can be highly illiquid, may be speculative and is not suitable for all investors. For example, alternative investments may place substantial limits on liquidity and the redemption rights of investors. Other risks include the possible loss of a substantial portion of an investment due to leveraging or other speculative practices, lack of a secondary market for securities, volatility of returns, concentration risks and lack of diversification, complex tax structures and delays in tax reporting, less regulation and higher fees. Investors should carefully review and consider the potential risks of alternative investments.

Tax Considerations. Neither MSSB nor any of our affiliates provide tax advice and, therefore, are not responsible for developing, implementing or evaluating any tax strategies that may be employed by the client. The client should develop any such strategies or address any tax-related issues with a qualified tax adviser.

Fees

The following Fee schedule shall apply to FAM accounts.

On the first \$5,000,000	1.750%
On the next \$5,000,000	1.000%
On the next \$15,000,000	0.500%
On the next \$25,000,000	0.400%
On the next \$50,000,000	0.250%
On the next \$100,000,000	0.150%

For the Graystone Discretionary Services program, the fees schedule is : .84% on the first \$25 million; .375% on the next \$25 million; and .25% on assets in excess of \$50 million.

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 provided by MSSB. 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 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 CGM or MSSB to deduct fees when due from the assets contained in the account.

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

The primary service that you are purchasing in the programs described in this brochure is the Firm's discretionary management of your portfolio pursuant to certain program guidelines. Cost comparisons are difficult because that particular service is not offered in other CG 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, CG 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. Those programs involve the discretionary portfolio management decisions of third party investment managers and not your Financial Advisor.

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 investment advisory services, custody of securities and trade execution with or through CGM (for SB Channel clients) or through MSSB (for MS Channel clients). The program fees do not cover:

- the costs of investment management fees and other expenses charged by Funds (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)
- account closing/transfer costs
- processing fees
- 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).

Funds in Advisory Programs

Investing in Funds is more expensive than other investment options offered in your advisory account. In addition to our fee, you pay the fees and expenses of the Funds in which your account is invested. Fund fees and expenses are charged directly to the pool of assets the Fund invests in and are reflected in each Fund’s share price. These fees and expenses are an additional cost to you and are not included in the fee amount in your account statements. Each Mutual Fund and ETF expense ratio (the total amount of fees and expenses charged by the Fund) is stated in its prospectus. The expense ratio generally reflects the costs incurred by shareholders during the Mutual Fund’s or ETF’s most recent fiscal reporting period. Current and future expenses may differ from those stated in the prospectus.

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

Cash Sweeps

Generally, some portion of your account will be held in cash. If CGM (or MS for Converted Accounts) acts as custodian for your account, it will effect “sweep” transactions of uninvested cash, allocations to cash and cash equivalents, 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 managed by Morgan Stanley Investment Advisors Inc. or another of our affiliates (each, a “Money Market Fund” and, together with BDP Deposit accounts, “Sweep Investments”).

The custodian will effect these 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 (the “FDIC”) up to applicable limits, in accordance with FDIC rules, and subject to the aggregation of all 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 without notice to you. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure 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 the FDIC insurance coverage available to you and (ii) MSSB is not responsible for any insured or uninsured portion of your deposits at any Sweep Bank.

If BDP is your Sweep Investment, you should be aware that each Sweep Bank will pay MSSB a fee equal to 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.

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 earned by MSSB on 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 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 principal invested.

Money Market Funds.

We may, in our sole discretion, offer Money Market Funds as Sweep Investments. The Money Market Fund 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, Money Market Funds.

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 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.

In addition, certain of the Money Market Funds described above have minimum investment 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 the 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 is invested in money market funds. For retirement accounts with cash balances invested in money market funds managed or sponsored 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 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 MSSB

If you invest in the program described in this brochure, a portion of the fees payable to us in connection with your account is allocated on an ongoing basis to MSSB Financial Advisors. The amount allocated to your MSSB 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. Your MSSB 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 the program described in this brochure, MSSB 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 MSSB Financial Advisor. Therefore, MSSB Financial Advisors have a financial incentive not to reduce fees

Payments from Investment Managers. Investment managers participating in MSSB-sponsored internal training and education conferences and meetings may make certain payments to, or for the benefit of, MSSB or its Financial Advisors to offset expenses incurred for these events. A schedule of these registration fees is available from your Financial Advisor.

While all fund families are provided with sponsorship opportunities, certain fund families (referred to as "Global Partners") dedicate significant financial and staffing resources to these activities and may receive different additional opportunities to sponsor firm events and promote their funds to Financial Advisors and clients. This fact could lead Financial Advisors to focus on those funds offered by Global Partners when recommending mutual fund investments to clients instead of on those funds from fund families that do not commit similar resources to educational, marketing and other

promotional efforts. MSSB selects the fund families that are Global Partners based on a number of quantitative and qualitative criteria.

Investment managers may also sponsor their own educational conferences and pay the 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. Investment managers may sponsor educational meetings or seminars in which clients as well as Financial Advisors are invited to participate.

Investment 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 MSSB 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 the achievement of a sales target.

None of these amounts relate to any particular transactions or investment made by MSSB clients with investment managers. An annual estimate of the aggregate value of these amounts paid or provided by the investment managers to MSSB or a particular Financial Advisor may be provided, upon request, to clients. Investment managers participating in the Program are not required to make any of these types of payments.

Item 5: Account Requirements and Types of Clients

MSSB offers its services under this brochure to corporations, Taft Hartley funds, endowments, and foundations, public and private retirement funds including 401(k) plans, family offices and high net worth individuals.

Item 6: Portfolio Manager Selection and Evaluation

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

Please refer to the discussion in Section 4 A. for a complete description.

Calculating MSSB Financial Advisors' Performance

In the program described in this brochure, we calculate performance using a proprietary system. MSSB allows MSSB Financial Advisors from the SB Channel to create a composite performance track record for accounts they manage in a similar style.

Each month, MSSB's Performance Reporting Group reviews and tests certain client accounts with performance deviating from the average return of the applicable composite of accounts. It then reviews how performance was calculated for these accounts.

Since the SB Channel and MS Channel use different operational systems to calculate performance, the performance data in the programs may not be calculated on a uniform and consistent basis between the SB Channel and MS Channel.

B. Conflicts of Interest

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

Investment managers are allowed to occasionally give nominal gifts to MSSB 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 the achievement of a sales target.

These gifts and entertainment payments do not relate to any particular transactions or investment made by MSSB clients with Mutual Funds. On request, your MSSB Financial Advisor can provide you with an annual estimate of the aggregate value of these gifts and entertainment payments in respect of MSSB or your Financial Advisor.

Investment managers participating in a program are not required to make payments to MSSB for training, education conferences, meetings, gifts or entertainment.

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 accounts 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.

Trade Allocations. MSSB may aggregate the securities to be sold or purchased for more than one client to obtain favorable execution to the extent permitted by law. Trades may then be allocated in a manner that is equitable and consistent with MSSB's fiduciary duty to its clients (including pro rata allocation, random allocation or rotation allocation). Allocation methods vary depending on various factors (including the type of investment, the number of shares purchased or sold, the size of the accounts, and the amount of available cash or the size of an existing position in an account). The price to each client is the average price for the aggregate order.

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. 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; and MarketAxe. 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 and/or MS & Co. 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.

- *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.

C. Financial Advisors Acting as Portfolio Managers

Description of Advisory Services

See Item 4.A above for a description of the services offered in the programs described in this brochure.

Wrap Fee Programs

MSSB acts as the sponsor of the program described in this brochure. MSSB receives all the fees described in this brochure. MSSB pays FAM managers from the fees that it collects from clients. Client bear their proportionate share of the expense ratio embedded in any mutual funds or ETFs held in their accounts.

Performance-Based Fees

The program described in this brochure does not charge performance-based fees.

Methods of Analysis and Investment Strategies

MSSB Financial Advisors in the program described in this brochure may use any investment strategy when providing investment advice to you. Financial Advisors may use asset allocation recommendations of the Morgan Stanley Smith Barney Global Investment Committee as a resource but, if so, there is no guarantee that any strategy will in fact mirror or track these recommendations. Investing in securities involves risk of loss that you should be prepared to bear.

Policies and Procedures Relating to Voting Client Securities

If you have a FAM account you may elect to:

- Retain authority and responsibility to vote proxies for your account or
- Delegate discretion to vote proxies to a third party (other than MSSB).

Unless you delegate discretion to a third party to vote proxies, we will forward to you, or your designee, any proxy materials that we receive for securities in your account. We cannot advise you on any particular proxy solicitation

We will not provide advice or take action with respect to legal proceedings (including bankruptcies) relating to the securities in your account, except to the extent required by law.

Item 7: Client Information Provided to Portfolio Managers

MSSB has access to the information you provide at account opening. This includes information which may have been included in an investment questionnaire that the client completes as part of the account opening process.

Item 8: Client Contact with Portfolio Managers

In the programs described in this brochure, you may contact your MSSB at any time during normal business hours.

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 Financial Advisor 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 Financial Advisor 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 Advisor Advisors 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 LAWEC 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 Financial Advisor 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 LAWC 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 LAWC. In the LAWC, 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 LAWC. 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 LAWC to address regulatory issues and violations addressed in the LAWC,

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 Financial Advisor 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 Financial Advisor to develop a plan to pay CGM's clients affected by the market timing.
- On September 27, 2007, MS & Co. entered into a LAWC 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 Financial Advisor 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 Financial Advisor 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 Financial Advisor.
- 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 LAWC 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 and FCM Registrations. As well as being a registered investment advisor, MSSB is registered as a broker-dealer and a futures commission merchant.

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.

See Item 6.B above for conflicts that arise as a result of MSSB's affiliation with MS & Co., Citi and their affiliates.

Related Investment Advisors and Other Service Providers. MSSB has related persons that are registered investment advisers 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 and use an affiliated firm to manage your account, MSSB and its affiliates earn more money than if you use an unaffiliated firm. 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.

Code of Ethics

MSSB's Investment Adviser Code of Ethics ("Code") applies to its 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.
- Certain Employees are subject to further restrictions on their securities transaction activities (including Financial Advisors and other MSSB employees who act as portfolio managers in MSSB investment advisory programs).

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

See Item 6.B above.

Reviewing Accounts

At account opening, your MSSB 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. The Firm may adjust your portfolio at any time according to market conditions. Your MSSB Financial Advisor will ask you at least annually if your investment objectives have changed. If your objectives change, your Financial Advisor will recommend a modification to 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 Mutual Funds" in Item 6.B above.

MSSB's Professional Alliance Group program allows certain unaffiliated third parties to refer clients to MSSB. If the client invests in an investment advisory program, MSSB pays the third party an ongoing referral fee (generally about 25% of the portion of the client fee that MSSB would otherwise allocate to the Financial Advisor). MSSB may pay a fee greater or less than 25% depending on the facts and circumstances of the relationship.

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 ten 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 reflects the most recent information available 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%