

# Form ADV Firm Brochure

## Morgan Stanley Private Wealth Management, a Division of Morgan Stanley Smith Barney LLC

PWM Wealth Management Services  
PWM Discretionary Management Program  
PWM A La Carte

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This 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 [pwmadv\\_clientservice@ms.com](mailto:pwmadv_clientservice@ms.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](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply a certain level of skill or training.

## Item 2: Material Changes

There are no material changes.

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## Item 4: Advisory Business

### A. Description of MSSB, Principal Owners

#### Introduction to Morgan Stanley Smith Barney

Morgan Stanley Private Wealth Management (“PWM”) is a division of Morgan Stanley Smith Barney LLC (“MSSB”, “we” or “us”). MSSB 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 brokerage firms in the country with branch offices in all 50 states and the District of Columbia.

MSSB is owned by a joint venture company which is indirectly owned 65% by Morgan Stanley (“Morgan Stanley Parent”) and 35% by Citigroup Inc. (“Citi”). On September 11, 2012 Morgan Stanley Parent and Citi reached agreement with respect to Morgan Stanley Parent’s purchase of Citi’s remaining 35% stake in the joint venture company no later than June 1, 2015, subject to regulatory approval.

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

PWM’s advisory programs are provided by MSSB in its MS Channel. However, MS&Co. continues to perform certain services relating to these programs, including acting as clearing broker to execute securities transactions. The “Statement of MSSB and MS&Co. Responsibilities” in Exhibit A explains the respective roles and functions of MSSB and MS&Co.

For additional information about MSSB a copy of MSSB’s Form ADV Part I is available upon request. Form ADV Part I is also publicly available at the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You may obtain brochures for other MSSB investment advisory programs at [www.smithbarney.com/ADV](http://www.smithbarney.com/ADV) or by asking your Private Wealth Advisor (“PWA”).

### B. Description of Advisory Services

#### WEALTH MANAGEMENT SERVICES

In the Wealth Management Services (“WMS”) Program, PWM provides asset allocation and investment advice for a client’s portfolio on a non-discretionary basis. To receive wealth management services on an advisory basis, clients must

execute a PWM Wealth Management Services Master Agreement (the “WMS Agreement”).

**Creation of an Investment Policy Statement.** As part of the WMS Agreement, PWM assists clients in developing their investment objectives and preparing an Investment Policy Statement (the “IPS”) upon which PWM’s recommendations are based. The IPS typically addresses client’s investment objectives, investment time horizon and portfolio preferences and asset class restrictions, and includes a strategic asset allocation and tactical ranges for the portfolio.

**Asset Allocation Advice.** On an ongoing basis, PWM provides recommendations regarding strategic and tactical asset allocation based on the IPS.

**Investment Advice.** PWM provides ongoing recommendations with respect to assets invested through one or more of the MSSB’s investment advisory programs or platforms. For a description of these programs, please refer to the applicable wrap fee brochures.

**Performance Reporting.** Clients in the WMS program receive consolidated quarterly reports for all assets invested through the WMS Program.

#### A LA CARTE PROGRAM

Clients execute an advisory agreement with MSSB which will provide the client with monitoring and client reporting services on individual mutual funds and select ETFs. A La Carte agreements can only be used to purchase eligible open end funds (“Mutual Funds”) and exchange traded funds on a non-discretionary basis. Clients typically use this program in conjunction with investments in other investment advisory programs as a means to complement an existing portfolio.

PLEASE NOTE THAT PWM WILL NO LONGER BE SUPPORTING THE A LA CARTE PROGRAM IN OR AROUND MAY 2013. AT THAT TIME, CLIENTS IN THIS PROGRAM WILL BE REQUIRED TO CHOOSE AN ALTERNATIVE ADVISORY PROGRAM TO MAINTAIN THE ADVISORY STATUS OF THEIR ACCOUNT. PWM WILL PROVIDE MORE DETAILED WRITTEN INSTRUCTIONS TO IMPACTED CLIENTS PRIOR TO MAY 2013.

#### DISCRETIONARY MANAGEMENT PROGRAM

In the PWM Discretionary Management (“DM”) program, a Private Wealth Advisor who meets the program certification requirements manages your assets on a discretionary basis. In other words, your Private Wealth Advisor, and not you, has the discretion to decide what securities to buy and sell in your account. This discretion is subject to the parameters described below and your ability to direct a sale of any security for tax or other reasons. The DM program provides Private Wealth Advisors with portfolio management and trade execution tools to manage accounts efficiently. Certain Private Wealth Advisors specialize in investing in multiple or single asset classes or they may have defined investment strategies. You should discuss with your Private Wealth Advisor which investment strategy suits your investment goals.

**Investment Process.** Your Private Wealth Advisor manages your DM account in light of information you provide about your investment objectives and financial situation. Your Private Wealth Advisor is primarily responsible for making and implementing investment management decisions for your account within the DM program's investment guidelines. The guidelines specify the number and types of securities eligible for investment in a DM program account (including percentage limitations on account holdings in certain types of investments). The guidelines also specify diversification requirements (across issuers, industry sectors and asset classes). At the PWM Advisory Group's discretion, certain Private Wealth Advisors have greater latitude in selecting securities and diversification. Therefore, the availability of investment strategies and securities and the applicability of investment limitations varies depending on your Private Wealth Advisor. You should consult with your Private Wealth Advisor for more information on the DM program's investment guidelines, the Private Wealth Advisor's approach to investing, and available investment strategies.

Depending on the investment strategy the Private Wealth Advisor uses, investments may include equity and debt securities, and cash and cash equivalents. Where approved, Private Wealth Advisors may use certain option strategies, such as covered call writing and protective put buying. Investments may also include shares of eligible closed-end funds, Mutual Funds that are not affiliated with us (other than certain affiliated money market mutual funds used for temporary investment of cash balances

Private Wealth Advisors are generally prohibited from using certain investments or investment strategies in DM accounts, including commodities, futures, short sales, affiliated open-end funds (other than certain affiliated money market mutual funds used for temporary investment of cash balances), partnerships, margin, derivatives, and other structured instruments, and certain securities on MSSB's restricted list.

Your Private Wealth Advisor may make investment decisions that are contrary to research ratings issued by Morgan Stanley Equity Research or Citi Investment Research. In addition, depending on the account's strategy and the Private Wealth Advisor managing the account, there may be investment limitations based on the credit quality of investments held. On occasion, the DM program's investment guidelines may require a Private Wealth Advisor to sell certain securities from client accounts based on their credit quality ratings. Although these sales of securities may result in capital gains or losses and thus in additional taxes and/or tax reporting for you, these tax consequences will not prevent us from selling these securities in your account.

The DM program's guidelines are subject to change without notice. You should consult your Private Wealth Advisor for further details.

## **C. Customized Advisory Services and Client Restrictions**

### **Customized Advisory Services**

In each of these programs, we tailor our recommendations to the individual needs of our clients. As described above, MSSB relies on your care, completeness and clarity in responding to the questionnaire or profile, as your responses will form the factual basis for your individual financial plan.

### **Client Imposed Restrictions**

In each of these programs, you may impose reasonable restrictions on account investments. For example, you may restrict MSSB from buying specific securities, a category of securities (e.g., tobacco companies), Mutual Funds or exchange traded funds ("ETFs" and together with Mutual Funds, the "Funds") Fund shares. If you restrict a category of securities, we 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 Fund holdings since Funds operate in accordance with the investment objectives and strategies described in their prospectuses.

Within the DM Program, PWM will invest and reinvests the proceeds of an account in accordance with your investment criteria, concentration limits and other requirements as stated in your investment policy statement, if any.

## **D. Portfolio Management Services to Wrap Fee Programs**

MSSB does not offer the Programs described in this ADV through any third party wrap fee platforms. MSSB does offer clients the ability to pay for advisory Program accounts on an asset based fee basis. The asset based fee generally includes the cost of execution, custody, advice and reporting. Other than the fee billing methodology, there are no material differences between how the wrap fee program accounts are managed and how other program accounts are managed.

## **E. Assets Under Management ("AUM")**

MSSB managed client assets of \$483,411,502,454 as of January 31, 2012. Of this amount, MSSB managed \$163,040,083,910 on a discretionary basis and \$320,371,418,544 on a non-discretionary basis. These amounts represent the client assets in all of our investment advisory programs. We calculated them using a different methodology than the "assets under management" we report in our ADV Part I filed with the SEC.

## Item 5: Fees and Compensation

### A. Compensation for Advisory Services

Fees are negotiable and may differ among clients based on a number of factors, including the type and size of the account or client relationship.

#### Asset Based Fees

Clients generally pay an asset-based fee for MSSB's advisory services. Asset-based fees are generally payable quarterly. Other billing periods (e.g., monthly) are available in certain products, subject to MSSB's approval. In the Programs described in this brochure fees are generally charged in arrears. The initial fee is based on the weighted average of the total asset value of the account at the end of each month occurring during the initial billing period. The quarterly fee is payable at approximately one-fourth of the applicable annual rate. The initial fee covers the period from the date the account is incepted with cash or securities (as described below) through the last business day of the initial calendar quarter, and is prorated accordingly. The initial fee becomes due on or before the last day of the first month of the following quarter. Thereafter, the quarterly fee for an account will be based on the weighted average of the total asset value of the account at the end of each month during the calendar quarter, and will become due on or before the last day of the first month of the following quarter.

#### WMS Program

As part of the WMS Agreement, clients can negotiate the fee applicable to the underlying advisory programs. These fees are broken down into three categories (1) WMS Fees, (2) Management Fees and Reporting Only Fees.

"WMS Fees" apply to Assets invested with or into separately managed accounts (SMA Managers), Funds, and cash (if applicable). These fees generally cover non-discretionary asset allocation advice and investment recommendations, diligence and monitoring of SMA Managers, consolidated client reporting, custody of assets with MS&Co., execution of transactions through MSSB, MS&Co. or MSSB Affiliates and other administrative fees and expenses.

"Management Fees" apply to investments with managers hired through the Fiduciary Services program (FS) and investments made through the DM and Global Investment Services (GIS) programs. In the case of investments made through the FS program, the Management Fees includes fees paid to the underlying investment managers and certain program fees retained by MSSB that are not shared with your PWA. In the case of investments made through DM and GIS, Management Fees include discretionary investment advice, the execution of transactions through MSSB, MS&Co. or MSSB Affiliates and custody of assets with MS&Co. For a description of the FS, GIS and other programs offered by MSSB, please refer to the applicable wrap fee brochures.

At the client's request, PWM may, on a brokerage basis, charge a "Reporting Only Fee" of approximately 0.10% for consolidating the performance of investments in managers or

alternative investments that are not on our approved wrap platforms but which are nonetheless part of the clients overall asset allocation.

#### A La Carte

The fees charged for these services vary depending on the client or PWA. The maximum annual fee in the A La Carte program is 2.00%.

#### Alternative Fee Arrangements

On an exception basis, in the DM program, clients may be able to compensate MSSB for its services, in lieu of a single asset based fee, through: (1) a combination of an asset-based fee and commissions on each transaction executed by MSSB for the services described above, or (2) commissions on each transaction executed through MSSB on a discretionary basis. The commissions charged on these compensation arrangements are negotiable and may generally be computed in one of three ways: (1) as an amount per share or per principal amount; (2) as a percentage of customary commission charges; or (3) as a percentage of the value of the security. Thus, different clients are likely to pay different rates depending on various factors, including the specific negotiations with their own PWA. Each of the above fee arrangements may be more suitable to particular clients, and result in higher or lower payments in comparison to other forms of payment, depending on their investment strategies and the level of account activity.

The maximum annual fees for commission only and commission and fee based compensation generally total no more than 2% of assets calculated annually (for assets from \$0-\$3 million) and no more than 1.5% of assets, calculated annually (for assets of \$3 million or more).

On an exception basis, the WMS Advisory Group may allow clients to pay an annual flat fee for WMS services.

### B. Payment of Fees

Fees for the services described in this ADV are charged quarterly in arrears. Clients generally authorize MSSB to deduct the fee and any other charges from the account on or following the date they are payable. MSSB reserves the right to liquidate a portion of the account assets to cover the fee at any time. Liquidation may affect the relative balance of the account, and also may have tax consequences and/or may cause the account to be assessed transaction charges. Additional Fees and Expenses

The fees described in section 5(A) above, 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”), which are described in the respective IRA and fee documentation (which may change from time to time)
- 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).

### **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. In addition, some Mutual Funds may charge, and not waive, a redemption fee on certain transaction activity in accordance with their prospectuses.

### **C. Prepayment of Fees**

With respect to the programs described in this document, MSSB does not offer clients the ability to pay for fees in advance.

### **D. Compensation for the Sale of Securities or Other Investment Products**

Clients do not pay any sales charges for purchases of Mutual Funds in the programs described in this brochure.

If you elect an eligible Money Market Fund, you authorize, without any further direction, that all cash balances in the account in excess of \$1.00 be automatically invested every business day into that Money Market Fund. 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.

Clients generally have the ability to purchase investment products that we recommend through other brokers or agents that are not affiliated with MSSB.

Commissions do not provide MSSB’s primary source of revenue from advisory accounts.

For accounts that choose to pay MSSB a combination of an asset based fee plus commission, MSSB may reduce the asset based fee in order to ensure that the total fee does not exceed the maximum annual fee for the program.

## **Item 6: Performance Based Fees and Side by Side Management**

This item is not applicable to the programs described in this brochure.

## **Item 7: Types of Clients**

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

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

### **A. Method of Analysis and Investment Strategies**

#### ***DM Program***

Private Wealth Advisors in the DM program described in this brochure may use any investment strategy when providing investment advice to you. Private Wealth 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.

#### ***WMS Program***

Private Wealth Advisors in the WMS program described in this brochure may utilize Separately Managed Accounts, the DM program, the PWM Non Discretionary Advisory program, alternative investments and GIS when providing investment advice to you. The WMS department works with the Wealth Strategies Group, who assists in developing customized solutions for each Client in the WMS program. A customized Investment Policy Statement is developed, which among other things, outlines the Client’s tolerance for risk and which ultimately provides the basis for Strategic and Tactical

Investment frameworks, appropriate asset classes and assistance with manager selection. While this framework seeks to limit risk exposure, investing in securities involves risk of loss that you should be prepared to bear.

## **B. Material, Significant, or Unusual Risks Relating to Investment Strategies**

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 Private Wealth Advisor's past performance with respect to other accounts does not predict future performance with respect to any particular account.

The WMS group works with the Wealth Strategies Group to customize an asset allocation based on the client's financial goals, risk tolerance, and time horizon. Average expected return of each asset class within a portfolio as well as historical risk and correlations between asset classes, are applied when conducting the analysis.

Asset allocation does not assure profit or protect against loss in declining financial markets. Certain assumptions may be made in analyses that are used to make asset allocation decisions. Any change in these assumptions may have a material impact the clients portfolio.

The projections or other information generated by an asset allocation analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results.

The WMS group also works with the Wealth Strategies Group to provide assistance with manager selection and implementation. Investing with a money manager or in an investment product may involve a high degree of risk, including loss of your entire investment. In addition, there is no guarantee that any investment product or manager will have positive performance or achieve any investment, tax or accounting objectives or track or outperform any designated benchmark.

## **C. Risks Associated with Particular Types of Securities**

Certain investment strategies that Private Wealth 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 Private Wealth Advisor for more details regarding the specific risks associated with the investments in your account.

### ***Risk Relating to Investments in Derivatives***

On limited occasions, MSSB provides advice with respect to a wide variety of instruments generally referred to as derivatives, including, but not limited to, forward contracts on

securities and foreign currencies, swaps, structured notes, caps, collars, floors, equity-linked securities and liquid yield option notes. As a general matter, these instruments are not provided to clients on an advisory basis but, instead as part of MSSB's brokerage services. Other securities that MSSB provides advice with respect to include fixed income securities issued by foreign governments, agencies and corporations and private investments in private real-estate related companies.

To the extent used, MSSB only invests in derivatives in a manner consistent with its focus on managing the expected return and the risk exposure of the overall portfolio. MSSB employs derivatives in situations where it believes it can help increase expected returns or reduce risks at a lower cost than a cash market alternative.

### ***Risk Relating to Investments in Emerging Countries***

MSSB invests assets of certain of its clients in the equity and debt markets of emerging countries. Investing in the equity markets of emerging countries entails certain risks and special considerations not associated with investing in the U.S. and more established markets. Some emerging countries have laws and regulations that currently preclude direct foreign investment in the securities of their companies. However, indirect foreign investment in the securities of companies listed and traded on the stock exchanges in these countries is permitted through investment funds, which have been specifically authorized. In order to gain exposure to such markets, MSSB may invest client assets in these investment funds. In addition, MSSB may invest client assets in investment funds that invest in securities that the MSSB has the ability to purchase directly. If MSSB invests in such investment funds, the client will bear not only its own expenses with respect to such investments (such as investment management and custody fees), but also will indirectly bear similar expenses of the underlying investment funds.

Certain of the investment funds referred to in the preceding paragraph are advised by MSSB or its affiliates. MSSB may invest in these investment funds for clients for which it manages assets. If MSSB does elect to make an investment in such an investment fund, MSSB will ordinarily purchase the securities of such investment fund in the secondary market; however, MSSB may receive a fee from its clients with respect to assets invested in such funds as well as a fee from such funds for MSSB's investment management services to the funds.

### ***Risk Relating to Restricted Securities***

MSSB may also invest in Rule 144A securities which may be issued by developed as well as emerging market companies. Rule 144A securities, which are securities that are not listed in the U.S., may only be offered by the issuer and then re-offered and re-sold (by persons other than the issuer) to Qualified Institutional Buyers ("QIB's") that own or invest at least \$100 million in other securities that are unaffiliated with the QIB until such time the securities are registered, if any.

In connection with several of its products, on behalf of certain of its clients, MSSB invests in privately negotiated investments in public and private companies. These



investments may not be publicly traded and may contain substantial restrictions (both securities laws and contractual) on transferability. In connection with negotiating these investments, MSSB may receive the right to appoint a director of the board of the issuer and may receive certain contractual rights with respect to the management of the company. These types of investments usually involve a high degree of business and financial risk and can result in substantial losses.

#### ***Risk Relating to Alternatives***

MSSB may recommend that clients allocate a portion of their assets to investment managers that follow alternative investment strategies, such as hedge fund investments. These strategies may be speculative, entail substantial risk and may not be suitable for all investors, nor do they represent a complete investment program. Many alternative investment managers and their related products are not subject to the same regulatory requirements as traditional investments.

Alternative investments may include specific risks associated with limited liquidity, the use of leverage, arbitrage, short sales, options, futures and derivative instruments. There can be no assurances that a manager's strategy (hedged or otherwise) will be successful or that a manager will employ such strategies with respect to all or any portion of a portfolio. Clients should recognize that they may bear asset-based fees and expenses at the manager-level, and indirectly, fees, expenses and performance-based compensation. Performance-based compensation may create an incentive for the managers that may receive performance-based compensation to make investments that are riskier and more speculative than would be the case if this special allocation were not made. Because the individual managers make trading decisions independently of each other, it is possible that they may, on occasion, hold substantial positions in the same security or group of securities at the same time. This possible lack of diversification may subject the client's investments to more volatility than would be the case if the client's assets were more widely diversified.

#### ***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.

Most ETFs, like all mutual funds, are registered investment companies under the Investment Company Act of 1940. However, ETFs that invest exclusively in physical assets, such as gold, and are not registered investment companies. These ETFs will not have the protections associated with ownership of shares in a registered investment company. For example, these ETFs are not subject to the prohibition on registered investment companies dealing with affiliates, do not have an independent board of trustees, and are not subject to requirements with respect to, among other things,

diversification and the prohibition on the suspension of redemptions.

#### ***Risk Relating to REITs***

Certain Programs offer real estate-related investment disciplines, which typically invest in common stocks of U.S. corporations. Almost all such investments will be treated for tax purposes as investments in real estate investment trusts ("REITs"). Although it is unlikely that such investments will cause a tax-exempt investor to recognize "unrelated business taxable income" ("UBTI"), no assurances can be made that no UBTI will be recognized. If any investment causes a tax-exempt investor to recognize UBTI, and that tax-exempt investor is a charitable remainder trust, all of the income of the charitable remainder trust would be subject to federal income tax for the tax year in which the UBTI was recognized. Therefore, charitable remainder trusts should consult with a tax adviser before investing in real estate investment disciplines.

#### ***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.

#### ***Risks Related to Minimum Denominations in Fixed Income Securities***

MSSB may not be able to execute transactions in certain fixed income securities (specifically including municipal bonds) in a client's account when they do not meet the minimum denomination and increment requirements established by the issuer. In certain cases, this may result in an inability to rebalance a portion of a client's fixed income portfolio or liquidate a portfolio of fixed income securities for tax harvesting or other purposes. To the extent permitted by law, MSSB will use its best efforts to assist advisory clients in selling fixed income securities that may not meet these minimums but cannot guarantee that a market will be available in which to sell such securities, nor the price at which such securities would sell if such markets were to exist.

## Item 9: 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, Salomon 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 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 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 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 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 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 Private Wealth Advisor.

## Item 10: Other Financial Industry Activities and Affiliations

Morgan Stanley Parent is a financial holding company under the Bank Holding Company Act of 1956. Both Morgan Stanley Parent and Citi are corporations whose shares are publicly held and traded on the New York Stock Exchange. MSSB is owned by a joint venture company which is indirectly owned 65% by Morgan Stanley Parent and 35% by Citi. On September 11, 2012 Morgan Stanley Parent and Citi reached agreement with respect to Morgan Stanley Parent's purchase of Citi's remaining 35% stake in the joint venture company no later than June 1, 2015, subject to regulatory approval.

**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.

### A. Broker-Dealer Registration Status

As well as being a registered investment advisor, MSSB is registered as a broker-dealer.

### B. 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 futures commission merchant. MSSB has a related person that is a commodity pool operator (Demeter Management Corp.) For a full listing of affiliated investment advisers please see the ADV Part I.

### C. Material Relationships or Arrangements with Industry Participants

**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.
- 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.

**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, MSSB (or an affiliate's) trading – both for its 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.

**Trade Allocations.** Your Private Wealth Advisor may aggregate the securities to be sold or purchased for more than one client to obtain favorable execution to the extent permitted by law. The Private Wealth Advisor will then allocate the trade 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 Private Wealth 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. (As of the date of this brochure, MSSB is the clearing broker for most of the MS Channel’s investment advisory programs. MS&Co. is the clearing broker for some MS Channel clients - typically those with PWM accounts. 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.

***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.

#### **Cash Sweeps**

Generally, some portion of your account will be held in cash. If MS&Co. 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 established under the Bank Deposit Program (“BDP”) or



- money market mutual funds including those managed by Morgan Stanley Investment Management Inc. or another of our affiliates (each, a “Money Market Fund” and, together with BDP 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.** BDP is your Sweep Investment if you are eligible and you do not select another Sweep Investment.

If BDP is your Sweep Investment, you authorize, without any further direction, that all cash balances in your account in excess of \$1.00 be automatically deposited or swept every business day into an account at a FDIC insured depository institution affiliated with Citi (SB Channel) or at Morgan Stanley Bank or Morgan Stanley Private Bank, National Association which are both affiliates of MSSB.

Your BDP accounts earn interest. Your BDP deposits are insured by the 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 applicable sweep bank in the same capacity. You are responsible for monitoring the total amount of BDP and other deposits you have at any bank to determine the extent of FDIC insurance coverage available to you. MSSB, Citi and their affiliates are not responsible for any insured or uninsured portion of your deposits at the BDP banks. BDP deposits are not covered by SIPC or excess coverage.

If BDP is your Sweep Investment, the affiliated 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.

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which is provided to you with your account opening materials. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure Statement carefully.

**Money Market Funds.** If you elect an eligible Money Market Fund, you authorize, without any further direction, that all cash balances in the account in excess of \$1.00 be automatically invested every business day into that Money Market Fund. 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.

## D. Material Conflicts of Interest Relating to Other Investment Advisers

MSSB and its affiliates provide investment advisory, prime brokerage, trading, execution and other services to each other, to managers, pooled investment vehicles, and other clients, and receive compensation for such services.

MSSB may choose to recommend managers or investment products for which MSSB or one or more of its affiliates serve as broker, prime broker, counterparty, administrator or other service provider, including investment banking, placement agent or secured lender and with respect to which MSSB and/or its affiliates receives fees, interest and/or other compensation. MSSB, in the course of these activities, including its prime broker and secured or margin lending activities, may take actions that are adverse to the interest of its advisory client, such as foreclosing upon collateral comprised of assets of an investment product pledged with respect to a loan.

## Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

### A. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

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. DM Private Wealth Advisors and their team members and sales assistants may not trade in their own accounts (or certain accounts in which they or related persons have an interest) in the same security on the same day as they execute advisory clients' trades. Trades in derivatives of the security are also prohibited on the trade date.

Please ask your Private Wealth Advisor if you would like more information on the Private Wealth Advisor's practices in this respect.

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

## **B. Securities in Which You or a Related Person Has a Material Financial Interest**

MSSB may from time to time buy securities from, or sell securities to, certain of MSSB's advisory clients on a principal basis to the extent such transactions are consistent with MSSB's obligations to its clients and in compliance with applicable disclosure, consent and other regulatory requirements. Generally, principal transactions with clients will be effected only where the execution of the transaction will be at least as favorable as an agency transaction with a non-affiliated broker-dealer and where the client has consented to such execution. For example, PWM from time to time engages in principal trades with clients, subject to receipt of all required consents, in order to achieve best execution. In addition to securities transactions described above, the MSSB also effects transactions in foreign currencies on a principal basis for client accounts in accordance with applicable law.

MSSB is the regular investment banker for a number of major corporations and, from time to time, performs investment banking services for other companies as well. It is MSSB's belief that the nature and range of clients to which MSSB renders such investment banking services is such that it would be inadvisable to exclude categorically all of these companies from a client's account. Accordingly, it is likely that securities in an advisory account will include some of the securities of corporations for which MSSB performs investment banking services. Moreover, an account may include the securities of companies in which MSSB or affiliates makes a market or in which MSSB or affiliates, or the officers or employees of MSSB or affiliates, own securities.

In addition, MSSB may from time to time recommend to, purchase for, or sell to clients' securities or other investment products in which MSSB or its affiliates may have or may acquire an interest. Transactions in a specific security may not be accomplished for all client accounts at the same time or price.

## **C. Investing in Securities That You or a Related Person Recommends to Clients or Has a Financial Interest In**

In addition, MSSB may recommend to clients the services of registered investment advisers affiliated with MSSB. Such investment advisers, if selected by the client, receive investment management fees for their services. PWM also refers clients to its affiliates for management through pooled vehicles using alternative investment as well as private equity and venture capital strategies. MSSB recommends to, purchases for, or sells to its clients securities or other investment products in which MSSB or its affiliates may have or may acquire an interest, and acts as a general or limited partner in other partnerships in which clients may be solicited to invest. The documents that clients are required to execute to receive the investment supervisory services offered by MSSB contain, where appropriate, conflict of interest disclosure.

## **D. Conflicts of Interest Created by Contemporaneous Trading**

Please refer to Section 11(A) above for information about contemporaneous trading.

# **Item 12: Brokerage Practices**

## **A. Brokerage Practices**

Whenever permitted by applicable law, MSSB or any of its affiliates will act as broker-dealer for client transactions. Clients may be able to obtain better executions of securities transactions if a broker-dealer other than MSSB or its affiliates are used to execute the client transactions.

MSSB is affiliated not only with MS&Co. and its affiliates, but also with Citi and its affiliates. This results in additional or broader restrictions relating to the execution of client transactions as follows:

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

It is MSSB's intended policy, consistent with investment considerations, to seek the most favorable price and execution ("best execution") for brokerage orders. Best execution is a combination of commission rates and prompt, reliable execution. In seeking best execution, MSSB may place most or all brokerage transactions through Affiliated Broker-Dealers. In continuing to place most or all of its transactions through Affiliated Broker-Dealers, MSSB considers execution capabilities, including block positioning, financial stability, ability to maintain confidentiality, delivery and ability to obtain best execution. Consistent with the policy of seeking best execution, MSSB may consider the research capabilities of various brokerage firms, including their coverage of industries not covered by MSSB, the reputation and standing of their analysts, and their investment strategies, timing, accuracy of statistical information and idea generation. These supplemental research and statistical services generally consist of research reports or oral advice from the brokers and dealers regarding particular companies, industries or general economic conditions.

MSSB may not be able to execute transactions in certain fixed income securities (specifically including municipal bonds) in a client's account when they do not meet the minimum denomination and increment requirements established by the issuer. In certain cases, this may result in an inability to rebalance a portion of a client's fixed income portfolio or liquidate a portfolio of fixed income securities for tax harvesting or other purposes. To the extent permitted by law, MSSB will use its best efforts to assist advisory clients in selling fixed income securities that may not meet these minimums but cannot guarantee that a market will be available in which to sell such securities, nor the price at which such securities would sell if such markets were to exist.

## **B. Order Aggregation**

MSSB manages its client accounts independently, taking into consideration each client's investment objectives and guidelines. Transactions for each client account may be completed independently. MSSB may, however, purchase or sell the same securities or instruments for a number of client accounts at the same time. When possible, clients' orders for the same security may be combined or "batched" to facilitate best execution. To the extent MSSB effects batched transactions for client accounts, it will do so in a manner designed to ensure that no participating client is favored over any other client. Specifically, each client that participates in a

batched transaction will participate at the average share price for all of the transactions in that batched order. Securities purchased or sold in a batched transaction will be allocated pro-rata, when possible, to the participating clients' accounts in proportion to the size of the order placed for each account. MSSB may, however, increase or decrease the amount allocated to each account if necessary to avoid holding odd-lot or small numbers of shares for particular clients. Additionally, if MSSB is unable to fully execute a batched transaction and MSSB determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro-rata basis, MSSB may allocate such securities in a manner determined in good faith to be a fair allocation.

Due to the diverse nature of MSSB's client base (i.e., taxable, tax-exempt, and clients that hold restricted stock and/or inherited stock), MSSB may decide to exclude an account(s) from a batched order if the inclusion of the account(s) would be detrimental to the client(s) (i.e., adverse tax consequences, etc). MSSB may also determine that it is not feasible to combine or batch transactions into a single order, and may effect transactions on an account by account basis. This will generally occur when MSSB is purchasing and selling securities in response to client cash flows. Since cash flow transactions are generally not predictable, MSSB may purchase or sell the same security several times during the course of the day, which may result in MSSB's clients not receiving the same or an average share price for trades placed in the same security on the same business day.

## **Item 13: Review of Accounts**

### **A. Frequency and Nature of Review of Client Accounts**

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

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

The WMS Group will perform quarterly surveillance on all relationships where there is a Master Agreement and an Investment Policy Statement in place for the clients advisory assets. This review involves a comparison of the Clients current portfolio allocation relative to the construct outlined in the Investment Policy Statement. Breaches, if any, are communicated to the Client for direction.

## B. Factors Prompting Review of Client Accounts other than a Periodic Review

The PWM Advisory Group reviews DM program accounts daily to determine if any investments are outside the program guidelines and, if so, requires your Private Wealth Advisor and Branch Manager to bring your account within the guidelines.

## C. Content and Frequency of Account Reports to Clients

Performance reports detailing investment performance at the investment and aggregate portfolio level, as well as the strategic and tactical investment tolerances from the investment policy statement are made available to you on a quarterly basis.

## Item 14: Client Referrals and Other Compensation

MSSB or affiliates may enter into agreements with affiliates as well as third parties that solicit clients for the MSSB's advisory programs. Under such agreements, the affiliates and third parties may refer or solicit clients and receive compensation for such services. The compensation paid to any such third-party will typically consist of a cash payment stated as a percentage of MSSB's advisory fees, but may include cash payments determined in other ways. As a result of these arrangements, fees paid by MSSB's advisory clients may differ from those paid by other similarly situated clients.

## Item 15: Custody

MS&Co. is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may elect to receive trade confirmations after the completion of each trade electronically through PWM's online account services site. To enroll your account in the online account service site, please contact your Private Wealth Advisor. You may also receive Fund prospectuses, where appropriate.

We provide written performance reports to you upon request. 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 PWM's online account services site. To enroll your account in the online account service site, please contact your Private Wealth Advisor.

## Item 16: Investment Discretion

In the DM Program, MSSB has discretionary authority to execute securities transactions on behalf of clients. This authority is subject to the client's investment goals and guidelines and financial situation as determined by prior

agreement and continuous review. In addition, MSSB's other financial industry activities may result in temporary limitations on the MSSB's ability, from a legal and regulatory point of view, to effect transactions on a discretionary basis. To enroll in any program described in this brochure, you must enter into the program client agreement. The DM client agreement contains the necessary authorizations to permit MSSB to act in a discretionary capacity.

## Item 17: Voting Client Securities

***Electing Who Votes Proxies.*** If you have an account in the DM program, you may elect to:

- retain the authority and responsibility to vote proxies for your account
- delegate discretion to vote proxies to a third party (other than MSSB) or
- authorize us to vote proxies for such securities and receive related materials.

Unless you authorize us to vote proxies, we will forward to you, or your designee, any proxy materials that we receive for securities in your account. Unless we vote proxies for you, we cannot advise you on particular proxy solicitations.

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.

***MSSB's Proxy Voting Policies and Procedures.*** This section only applies if you authorize us to vote proxies on your behalf. If you do so, you may not instruct us on how to cast any particular vote.

To assist us in our proxy voting responsibilities, we have engaged ISS, a third party provider of corporate governance services. ISS provides in-depth research, analysis and voting recommendations, as well as vote execution, auditing and consulting assistance to handle proxy voting responsibility. Except as described below, MSSB votes in a manner consistent with ISS' policy guidelines and vote recommendations. Because ISS makes its recommendations based on its independent, objective analysis of the economic interests of shareholders, its process ensures that we vote in clients' best interests and insulates our voting decisions from conflicts of interests.

If ISS cannot make a proxy vote recommendation, ISS abstains on behalf of MSSB. In cases where an abstention is not possible ISS refers the vote to the Proxy Voting Committee.

We have established a Proxy Voting Committee with members designated by MSSB management. The Proxy Voting Committee has the authority to amend MSSB's proxy voting policies and procedures. The Proxy Voting Committee meets periodically to review generally its proxy voting policies and procedures, and to address any outstanding or special proxy voting issues.

While MSSB's policy is to vote proxies solely in clients' best interests, proxy votes cast by the Proxy Voting Committee may also benefit other clients of MSSB or its affiliates (including investment banking or other clients with whom MSSB or its affiliates has significant client relationships).

The Proxy Voting Committee may abstain from voting if, based on factors such as expense or difficulty of exercise, it determines that this best serves clients' interests.

ISS enters proxies we cast on clients' behalf electronically into ISS' system.

You may obtain from your Private Wealth Advisor, on request:

- a complete copy of MSSB's proxy voting policies and procedures (including a copy of ISS' policy guidelines and vote recommendations in effect from time to time) or
- information on how proxy votes have been cast on your behalf during the prior annual period.

We retain books and records relating to our proxy voting activities on behalf of client accounts as required by law.

## **Item 18: 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.

## **Item 19: Requirements for State-Registered Adviser**

This item is not applicable to the programs described in this brochure.

## **Exhibit A: Statement of Morgan Stanley Smith Barney and MS&Co. Responsibilities**

### **Morgan Stanley Smith Barney (or “MSSB”) is responsible for:**

- Approving, opening, and monitoring your account(s), including obtaining, verifying, and retaining your account information and documents, accepting your account(s), and monitoring trading and other activity in your account(s).
- Providing investment advice to investment advisory clients of MSSB.
- Determining whether any investment advice or recommendation given to you by your Financial Advisor is suitable for you, and whether persons placing instructions for your account are authorized to do so. MS&Co. will not give you advice about your investments in your MSSB account(s) and will not evaluate the suitability of investments made by you, your Financial Advisor, or any other party for your MSSB account(s).
- Accepting orders and other instructions from you regarding your account, and promptly and accurately transmitting those orders and instructions to MS&Co. MS&Co. will not accept orders or instructions directly from you. MSSB may send orders for the purchase or sale of securities on your behalf to MS&Co. for execution, or MSSB may execute the transaction and instruct MS&Co. to post the transaction to your account.
- Operating in compliance with all applicable laws, rules and regulations relating to its own operations and securities activities, the supervision of its sales representatives and other personnel, and the supervision of transactions and other activity in your account.
- Initially receiving funds and securities for your account, in accordance with your instructions, for prompt transfer to MS&Co.
- Offering margin accounts to MSSB customers and setting margin requirements for MSSB accounts consistent with any requirements established by MS&Co. MSSB is responsible for informing you of credit requirements of your account and how to comply with them. MSSB regularly receives from MS&Co. information on the status of margin accounts and notice of changes in MS&Co. house rules. You and MSSB are responsible for ensuring that any extension of credit for which you apply or that you accept is suitable or appropriate for you, and that your margin accounts are at all times funded in compliance with Regulation T of the Federal Reserve board, the rules of the New York Stock Exchange, Inc., and other applicable self-regulatory organizations and the house rules of MS&Co.
- Investigating and responding to any questions or complaints you have about your account(s), confirmations, your periodic statement, or any other matter related to your account(s). MSSB will notify MS&Co. with respect to matters involving services performed by MS&Co.
- Maintaining the required books and records with respect to the functions it performs.

### **MS&Co. is responsible for:**

- Executing, clearing, and settling securities transactions.
- Preparing and sending to you periodic statements of your account as well as confirmations of the transactions in your account(s). Certain of the information on your statements, such as prices and descriptions of securities are obtained from third parties. For more specific pricing information, and prior to placing orders, MS&Co. suggests that you contact MSSB. In some cases, MSSB may instruct MS&Co. to post transaction or other information to your account. MS&Co. does not independently verify such information. MS&Co. provides MSSB copies of each confirmation and statement sent to you.
- Custody (or safekeeping) of funds and securities delivered to MS&Co. on your behalf or received by MS&Co. in connection with transactions in your account(s). MS&Co. is responsible for the handling of funds and securities which it holds or receives on your behalf in accordance with the instructions given by MSSB..
- Receiving and delivering funds and securities for your account in accordance with MSSB instructions. MS&Co. is not responsible for any funds or securities which are not actually delivered to it, or for any funds withdrawn from your account(s) by MSSB or its employees.
- Extending credit to you in connection with buying or maintaining securities in your account(s). MS&Co. will not determine whether any extension of credit for which you apply or accept is suitable or appropriate for you. As described above, you and MSSB are responsible for ensuring that your credit accounts are at all times funded in compliance with Regulation T of the Federal Reserve board, the rules of the New York Stock Exchange, Inc., and other applicable self-regulatory organizations and the house rules of MS&Co.. These rules are exclusively for the protection of MS&Co., and to the extent permitted by law, MS&Co. will not be liable to you for any failure by MS&Co. to comply with these rules. MS&Co. has the right to take market action in your account if it does not meet the credit requirements. MSSB regularly receives from MS&Co. information on the status of credit accounts and notice of changes in MS&Co. house rules.
- Maintaining the required books and records with respect to the functions it performs.